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THE FUTURE OF CHINA

The Nation in Travail—Decentralisation and Compromise.

The steady deterioration in China since the end of war has gained added momentum last year. In a lucid expose, outlining the basic faults of an economically backward China and the acute dangers for the people in their civil war and graft ridden country, the "Round Table" arrives at some conclusions of significant importance. Following is the slightly condensed text of the "Round Table's" review of China.*

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China after two years of so-called peace finds herself in greater peril to her nationhood than she was during the war, when the richest half of her territory was under hostile occupation. Since March 1947, when the already embittered relations between the National Government and the Communists were finally broken off, civil war on a large scale and on widely scattered fronts has been openly waged; and since June the Government has publicly announced its plans for an all-out military campaign to exterminate the Communists, now branded as rebels and traitors, although they control vast areas containing a quarter to a third of China's population. Military conscription, which was to have been ended almost two years ago, has now been intensified with all the brutalities that the practice involves under Chinese condition. Internal rail and river transport, which here and there was slowly beginning to be rebuilt with U.N.R.R.A. supplies, is again crippled by the arbitrary and destructive exactions of the military. Food requisitioning, often with levies by local generals superimposed on the demands of the National Government, has been extended mercilessly into regions (such as Hunan and Anhwei) already menaced by famine and receiving U.N.R.R.A. relief supplies. Paper dollars by the billions have poured from the printing

presses to finance the needs of armies and Government departments, driving prices to heights which have paralysed most industrial production and export trade. The exchange value of the currency has fallen from about 1,500 to one United States dollar in August 1945 to about 180,000 in January 1948. China's foreign trade, after a brief feverish period of uncontrolled imports, which for the most part enriched a few traders but brought little permanent benefit to the public, is now almost at a standstill and is throttled by severe and cumbersome restrictions. Foreign exchange reserves, which, thanks to American credits and United States Army expenditures in China, had risen to about United States \$1,000 million in 1946, are now reduced to only a small fraction of that amount.

Poor Showing of Nationalist Army.

Sacrifices of this order might perhaps be tolerated if the eventual rewards were assured and substantial. Yet in the military sphere the National Government, after almost two years, has barely extended its precarious foothold in North China, has failed to open either of the two north-south trunk railways, and has only just been able to prevent its isolated armies in Manchuria from being cut off and whittled away by the Communists. Morale among the Nationalist troops has remained low on most fronts and there have been some notable defections of Nationalist units—in one case a whole division—to the Communists. Nor have those favoured divisions which were trained and armed by the American Army always proved to be unqualified military assets. In too many cases American arms and supplies have passed, by capture or bribery, into the hands of the Communists, and in most areas the problem of feeding and maintaining these divisions on the relatively extravagant scale to which they have been trained has put grave additional burdens on an already inefficient service of supply.

A Useless Army.

Despite the pressure from the American military advisers and the pleas of General Marshall (and probably General Wedemeyer later), the oft-discussed reduction of the swollen Nationalist armies has made no progress. A Government which can barely afford to maintain an army of one million, and that only modestly equipped and poorly paid, persists in keeping three million ill-fed, badly clothed men under arms, only a fraction of them really fit for duty. The burden of these useless armies on the populace is not measured merely by the grain taxes and currency inflation needed to maintain them, but also by the constant draining away of man-power from an agricultural economy which requires large amounts of labour, and, perhaps most of all, by the hatred which the soldiers' looting and requisitioning of food and animals evokes among the peasants.

Communist Regions.

The few outside observers who have visited these regions generally agree that, though morale is relatively high, the economic and administrative policy of the Communists has moved during the past year into a much more drastic and revolutionary phase than was characteristic of the period from 1937 to 1945. Expropriation and redistribution of the larger land holdings, and the use of summary village courts to settle old, sometimes very old, grievances against those who have fallen out of favour with the authorities, have become increasingly familiar instruments of policy. Excesses and bloody reprisals by Communist troops against ill-fated communities which happen to be located on the border-lines of Nationalist and Communist territories have been much more frequent than formerly. Moreover, since they were forced to evacuate their old capital at Yanan and have lost many of their contacts with the rest of China and the outside world, the propaganda and gen-

eral ideological line of the Communists has taken on a far more extreme and doctrinaire quality. That in itself tends to confirm the belief of those who now allege that the Chinese Communists for the past twelve months have been following the regular Moscow party line much more closely and noticeably than formerly. Finally, it should be noted, though the evidence as yet is far from conclusive, that there have been increasing reports of more substantial and direct aid given to the Communists in Manchuria by the Russians, principally, it would seem, in the form of well-armed Korean troops from northern Korea.

Confident Communists.

What is less open to question and more significant is that the Communists, despite the numerous campaigns launched against them, remain astonishingly confident of their future. No recent visitor to China can fail to remark this fact. Nor can one cease to marvel at the extent to which in recent months sympathy with the Communists' aims and programmes finds vigorous expression from the most unexpected quarters in Nationalist China. Such expressions come even from conservative Chinese business men who have no love for Russia or socialism, men who in 1945 were solid supporters of the National Government but feel now that life under the relatively honest totalitarianism of the Communists could not be worse than it is under the corrupt inefficiency of the Kuomintang. Indeed it is on this fact that the Communists count most heavily for their eventual success. They do not deceive themselves that they will win many large frontal engagements in the field, but they are confident that the Nationalist forces will eventually collapse from their own graft and incompetence. It is worth noting that the Communists have recently made successful use of specially trained "surrender negotiators", experts in bribing the surrender or desertion of opposing troops whose morale has deteriorated. Such devices were of course tried and perfected earlier by the Communists in their dealings with puppet Chinese forces serving under the Japanese in North China.

Future of a Communist China.

The question is often asked: how would the Communists act if a succession of Nationalist military disasters should put them in a position to assert their power? While the answer must obviously depend on time and circumstances, there are many who think it unlikely that the Communists would immediately try to seize control of the Central Government and establish a Communist regime for the whole country. The Communist leaders are well aware of the risks they would run in such an attempt—risks of administrative breakdown through lack of qualified and trustworthy men, risks of serious local rebellions through lack of

sufficient reliable troops to police so vast an area. For that reason they are, in a sense, quite sincere in their assertions that they do not seek a monopoly of power and that their primary aim is to co-operate with other relatively progressive groups in a regime of rather free bourgeois capitalism, at least for several decades. How long that honeymoon phase would last before the Communists began to dominate the coalition would of course depend on a variety of factors, some of them international in origin. Similarly, in the military sphere, it is quite probable that the Communists, in the event of a Nationalist collapse, would deliberately choose to enter into a series of loose temporary alliances with certain provincial warlords, rather than try to take over, in one vast coup, the military control of all China.

Spoliation by Monopolies and the Bureaucracy.

Though often denounced as treacherous propaganda, the Communist claim that they are today the best friends of Chinese democracy and private enterprise is something more than mere hypocrisy. They know that the eventual triumph of their system in a backward economy like China's demands a much greater and faster development of modern industrialism and commerce than has yet occurred. They also know (and they exploit this to the full) that one of the chief worries of the ordinary Chinese business man today is the jungle growth of Government monopolies and bureaucrat-controlled enterprises, often run for the personal gain of a few favoured politicians and generals. This expansion of bureaucratic capitalism, which occurred naturally enough during the war in west China where private industry was very weak, was greatly accelerated after the Government moved back to the coast and took over the rich prizes of former Japanese factories and properties. Profiting from inside knowledge and political favouritism, many highly placed persons in Party and the Army made very lucrative deals in all kinds of business, ranging from real estate to electric power and river shipping. By far the juiciest of these political plums has been the huge China Textile Corporation, comprising all the former Japanese mills in China. Besides yielding a large revenue to the Government it has enriched numerous officials connected with it. Another enterprise which has been very profitable to certain individuals has been the shipment of coal, sugar and other raw materials from Formosa to the mainland. Still another has been the Yangtze River shipping, in which Chinese interests making unprecedented profits from high freight charges successfully blocked proposals to allow foreign shipping to trade at the inland ports of Hankow and Nanking—and at a time when China was desperately short of water transport.

Concentration of Economic Power by Nanking.

Exact figures and facts in such matters are difficult to obtain and there is no way of proving the truth of the sensational stories, widely circulated and believed in China, that several of the leading personalities in the Government and the Army are deeply involved in these enterprises for their personal profit. Whether or not one accepts these charges, which are stated in their most extreme form in a much-discussed Communist book entitled *The Four Families of China*, there is no doubt about the great expansion of bureaucratic enterprise and the steady decline in the power and prestige of the never robust private business class. Before 1937 that class, particularly the more modern industrialists, managers and bankers, used to constitute a small but progressive and potentially important influence in the modernization of China. Though almost wiped out as a political force during the war, this group of technically capable people might, under reasonably favourable conditions, have revived and become a nucleus around which a liberal programme of reform and reconstruction could have developed. Such a development could hardly have taken place, however, without some outside aid, particularly from foreign capital. It is ironical, therefore, that the United States, which is now the main citadel of private enterprise in an increasingly collectivist world, should have pursued policies in China which, whether intentionally or inadvertently, have served to strengthen and entrench the Chinese economic bureaucracy and thus still further block the recovery of Chinese private business. American credits, American lend-lease (continued long after the end of the war), American army surplus property turned over to the National Government, even many parts of the U.N.R.R.A. supply programme, have all had the effect of intensifying the concentration of economic power in the hands of government and party leaders.

Prerequisites for Foreign Help.

In some respects, of course, this development is inevitable. It is to be expected in all countries at war and is certainly not surprising in a land like China, where the power of bureaucracy is so deep rooted in tradition. But without in the least assuming that China could or should follow the path of Western nineteenth-century free enterprise, one may well feel some alarm at policies which put such difficult new obstacles on top of the age-old barriers impeding the growth of a modern middle class, which the nation so badly needs. Without such a class and without some modernized sectors of economic life to support it, there can be little hope for the emergence of even a rudimentary democracy in China. Accordingly, there are good grounds for arguing that foreign, especially American, aid to China should be given under conditions which would

particularly benefit the private business groups and check the further proliferation of bureaucratic enterprise. This is not to suggest that the Chinese business man is innocent of corruption and shortsighted policies; far from it. Yet, by and large, it is true that this group has within it the possibilities of more rapid and progressive leadership than the Nanking officialdom. Even in the event of a revolution this same group would, as the Communists admit, have to play a leading role in the nation's development, at least for twenty or thirty years.

Resuscitation of the moribund Chinese business class may seem a precarious foundation on which to start the modernization and reform of China. Precarious it certainly is, but without such a foundation it is folly to talk of establishing a "liberal" regime in China and of averting a destructive, but still probably abortive or inconclusive, revolution. Without such a foundation, too, the "democratic" political groups, whether in the minor parties or in the more moderate wing of the Kuomintang, can never hope to be more than a handful of powerless leaders with no following.

The Centralisation of Authority.

Monopoly and centralization of power in China have not been limited to the economic world. They are manifest also in the nation's political structure.

At a time when the basic issue for the National Government is no longer whether it can expand its authority over all of China but rather whether it can survive at all as a going concern in its own home base of the Yangtze valley, it is ironical to find how completely and unrealistically the doctrines of centralized administration continue to dominate the party and the Government. Whether in the sphere of economic planning (and there have been dozens of admirable but politically impossible plans) or educational policy or local government reform or the administration of the vitally important new territories of Formosa and Manchuria, one sees the same obsession for methods which require nearly all decisions, often on the most trivial matters, to await the nod of a handful of army or party favourites in Nanking or Shanghai. And since these functionaries are themselves often competing for the same spoils, all too often the final ruling must be referred to the Generalissimo himself. It is almost impossible for the ordinary Western reader who has not actually observed the National Government at close range during the past two years to imagine to what absurd lengths this process is carried. Even under a man as able and modern-minded as Dr. T. V. Soong, the inability or unwillingness of quite senior officials in the Executive Yuan to take action without his personal instructions on the most minute details has evoked feelings of alternative amazement and despair in the minds of foreign observers and advisers. Re-

peatedly such advisers have heard a highly competent senior official confess, in private, that he dare not openly convey to his Minister or party chief adverse comments on a proposal on schemes which he knows to be unsound or unworkable. The effects of such a system, through the paralysis of initiative and the fear of accepting responsibility on the part of local officials everywhere, are tragically evident in all parts of China today. Nowhere are they more harmful and ludicrous than in the educational bureaucracy of the National Government. Here, despite unbelievable shortages of teachers, equipment, books and buildings, and despite an extreme need for giving the maximum of freedom to improvise methods to suit the widely differing local circumstances, the Government persists, not only in prescribing from Nanking the most detailed, rigid systems of instruction, administration and examination, but also in using the educational system as a means of political indoctrination, espionage and "thought control" through the Youth Corps and student informers.

Two Chinas.

Nanking's dilemma today is: how far to persist in the hitherto futile attempt to establish a centralized Kuomintang hegemony over all China by military means or to concentrate, at least for the next five or ten years, on a policy of rebuilding and reforming the relatively safe and wealthy areas of the lower Yangtze while permitting a much greater degree of local autonomy in more distant provinces and thereby concede in effect the control of most of North China and Manchuria to the Communists. It is a bitter decision to have to make. To renounce, even for a few years, the hopes of regaining by conquest the more economically advanced North is something that many of the generals and Kuomintang chiefs will resist in every way, since for many of them it means the loss of valuable prospective spoils, not to mention a great enhancement of the power and prestige of the Communists. Yet the alternative—the continuance of the present ineffective but costly campaigns against the Communists—is one that increasingly whittles away the strength of the already weak Nationalist armies and undermines both economic recovery and public morale in the base areas of central China. More and more the Government finds its freedom of choice restricted to the elemental issue of mere survival.

Dreams and Realities.

Unless this grim fact is kept in mind, the outside observer of Chinese affairs may easily find himself drawn into discussions of an utterly unreal world of economic reconstruction (with Yangtze dams and huge heavy industry developments) or political reform (complete with constitutions and representative assemblies)—a world far removed from the real China around him, in which UNRRA industrial equipment brought

in without charge is left to rust or illegally diverted to private use, where the adoption of constitutional government is solemnly announced for the end of 1947 at a time when arbitrary and harsh requisitioning of men, animals and crops for the prosecution of the civil war has been renewed on an unprecedented scale. In this cloud-cuckoo-land it is all too easy to confuse hopes with accomplishments, to regard the blue-print as if it were, the factory in operation, to become absorbed in how to find foreign markets for the industrial exports of the new China, while forgetting the scores of small existing plants which are going out of business every week in the steady decline of an industrial output already pathetically low.

For any long-run programme of modernization China is sadly deficient in an adequate corps of technicians, modern administrators and skilled labourers. Perhaps most of all she lacks managers and foremen and the schools in which to train them. Nevertheless this scarcity is not her real problem for the present. Strange and tragic as it must seem, China to-day cannot effectively use her small supply of engineers and administrators. Because of military confiscations because of mounting internal costs and the Government's constant inability to divert funds from war purposes to reconstruction, hundreds of useful enterprises, which are supposed to be producing much-needed equipment or consumer goods and employing technicians and skilled workers, are idle or operating at only a fraction of their capacity. Technical skills and organizational "know-how", often acquired abroad at great expense, are wasting away along with the idle machines.

It may be said that the difficulties of absorbing new capital equipment are merely the temporary results of civil war and inflation. That is partly true, and the Government could prove it if it had the will to divert to economic reconstruction a part of the 80 per cent of the national revenue which now goes for war purposes. On the other hand, the roots of the problem lie much deeper in the very nature of the Chinese economy. Even under more favourable political conditions one must realize that China's economic capacity to utilize foreign capital goods is extraordinarily limited. The costs of employing such equipment—and especially much American equipment—are simply too great for a country which in the best of times has such a slender margin of real surplus wealth over the requirements for bare subsistence. The more responsible Chinese planners now concede this point and recognize that economic reconstruction will have to proceed more slowly and on a far more modest scale than the grandiose official plans would indicate.

Extraneous Influences on Society.

Orthodox discussion of Chinese economic and social problems always runs the risk of being vitiated by the

intrusion of extraneous political factors. That risk is so great to-day that arguments based on the reasonable assumption that the Chinese leaders are trying, however fumblingly, to advance the general welfare of the people are often likely to prove grotesquely wrong. And those who start from the cynical premise that all policies of the Government are designed primarily to increase the power or fortunes of a few party or army chiefs will often find themselves making surprisingly accurate predictions of future events. Two noteworthy illustrations of this may be cited—all the more illuminating because of the human tragedy in them.

The first is the National Government's sorry record in Formosa. Here the Chinese had a unique opportunity to demonstrate, under very favourable conditions, their capacity for reasonably efficient and just administration of a people who by history and racial affiliation were pre-disposed to be friendly. Instead, the Government permitted a horde of political favourites and carpet-baggers from the mainland to exploit and loot the island in the most unbridled fashion and then, when the Formosans rebelled against some of the exactions, shot them down in a brutal campaign of repression.

The second example is the story of the diversion of the Yellow River back into its old course. Of all projects in the UNRRA programme this had seemed to be most unquestionably beneficial to Nationalists and Communists alike and least susceptible to political sabotage. For a long time, indeed, the project was an inspiring example of co-operative endeavour. But in the end the decision to close the gap in the dyke and send the river along its old bed was made not by the engineers but by the Nationalist army authorities, mainly as a tactical move in the campaign against the Communists in eastern China. It was done at a time when the farmers located in the path of the water had not been given adequate opportunity to resettle and to repair the dykes along the new course of the river. Worse still, Nationalist planes for weeks strafed the labourers in the Communist territories as they worked on the dykes.

The C. C. Clique—Army Domination—Dependence on U.S.

An adequate discussion of the extraneous political factors in China is beyond the scope of this article, but three points must at least be briefly mentioned.

First is the continuing influence of the cliques within the Kuomintang, and, along with this fact, the constant effort of the Generalissimo to keep these factions counterbalanced. It is characteristic that at the present time, when, partly from a need to please the American Government, a politically "moderate" Premier has been put into office, the Generalissimo has permitted the right-wing "C.C." clique of the Chen brothers greatly to strengthen its position in the party, in the local governments and in many of the key sectors of the financial world.

DECLINE OF CHINA'S AGRICULTURAL AND INDUSTRIAL PRODUCTION

In a Survey made by the Economic Commission for Asia and the Far East (established by the United Nations Social & Economic Council) conditions in China in 1947 as regards the deterioration of production in agriculture and industry is emphasised. A condensed part of the relative sections dealing with China is reproduced below.

* * * *

(1) POST-WAR DETERIORATION Decline in Agriculture.

Supplies of agricultural products in the years 1946 and 1947 were reduced because of the diminution in area under production from military operations

Second is the fact that the army, despite all the admirable plans for constitutional civilian government, continues to have an overwhelming influence in the economic life and political administration of the country. Provincial governors are almost invariably generals; the decisive voice in local administration is that of the local commander; the mayor of a city is always at the mercy of the garrison commander and the gendarmerie; orders from Nanking government departments are sabotaged or disregarded by army officers in the field; and the army is above all the hotbed of official corruption—so habitual as to be worthy of comment or criticism only in the most flagrant cases.

Thirdly, and this is of unique importance in the present international scene, China is in the difficult situation of being officially one of the big Powers but in reality almost a dependant of the United States and being located on the frontiers of America's chief antagonist. The consequences of this relationship may be fateful. They manifest themselves not only in all aspects of Chinese foreign policy but also in many internal developments. Every important step by the National Government is taken with an eye on Washington and with an estimate of the current state of American-Russian relations or of the probable trend of sentiment in a new Republican Congress. American arms, planes and credits are indispensable for the prosecution of the civil war; and so American advice and criticism (often bluntly expressed, as they were even by as friendly an observer as General Wedemeyer) on the reform of the Chinese Army and Government must be swallowed with a good grace. American correspondents who continue to report unpalatable truths about the Chinese scene must be permitted to function without too obvious interference. Having failed to obtain the long-sought loan from the U.S. Export-Import Bank before the credit lapsed in June 1947, the Chinese must now watch the steady diversion of American finan-

cial aid to Western Europe, rather than Asia. Most unwelcome of all, China must watch her ex-enemy Japan becoming the pampered ward of the United States and being described by American army officers (sadly disillusioned about the earlier dreams of building China into a strong military ally) as the only Asiatic country they can make into a trustworthy American bastion against the Soviet menace.

That China, beset with internal feuds which threaten her very existence, and caught between the two opposing steam-rollers of the United States and the Soviet Union, can continue so plausibly to sustain her nominal role in the United Nations as one of the great Powers is an astonishing tribute to the talents of her diplomats.

He would be a rash man who would predict the political future of this convulsed nation. Some will argue that her present disorders are the natural product of the war and not essentially different from the many troubles from which she has successfully recovered in past centuries. But to most observers to-day China stands on the brink of a much greater disaster threatening her very nationhood. One recalls poignantly the prophetic words in Sun Yat-sen's will: "The revolution is not yet finished." Unless China's own leaders and her foreign friends have the wisdom to aid and not thwart the still incomplete social revolution, her future is dark indeed.

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* The "Round Table", of London, is a cooperative enterprise conducted by people who dwell in the different parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of imperial politics; to this is added a careful and impartial treatment of outstanding international problems that affect the nations of the Commonwealth. The affairs of the "Round Table" in each portion of the Commonwealth are in the hands of local residents.

Help of U.N.R.R.A.

The fishing industry suffered a loss of 400 out of 771 trawlers, between 50,000 and 60,000 junks out of a total of about 101,000 and nearly 50 percent of the equipment. Deliveries from U.N.R.R.A. have substantially improved the position.

Out of a total of 13,820 kilometres of railways outside the Northeastern Provinces and Taiwan at the end of the war, 2,399 kilometres or 17 percent were totally destroyed or dismantled and 1,871 kilometres or 15 percent partially destroyed. In March 1946 there were 2,612 locomotives, 26,133 freight cars and 2,709 passenger cars, but one-half of the locomotives, 40 percent of the passenger cars and one-third of the freight cars were damaged. At least 10 percent of the rails and 25 percent of the sleepers needed replacement, while many railway shops had been damaged or dismantled.

Some improvement in the situation has been made possible by the receipt of U.N.R.R.A. supplies. This is summarised in the following table:

U.N.R.R.A. RAILWAY SUPPLIES FOR CHINA

	Programmed	Received
Locomotives ..	262	192
Freight cars ..	3,445	3,445
Bridging	43,300 L/T	17,500 L/T
Rails, rail accessories ...	84,000 L/T	80,000 L/T

SUPPLIES OF TOOLS, MATERIALS AND EQUIPMENT PROCURED BY U.N.R.R.A.

(By September 1947)

	Procured (L/T)	In China Tonnage (L/T)
Highway Hand Tools	521	521
General Construction Equipment	17,917	16,958
Highway Repair Material (including bridging)	36,288	27,518
	54,726	44,997

Shipping Losses.

The loss of fishing craft was paralleled by heavy losses in other vessels. The total tonnage of inland and coastal shipping was nearly 1,070,000 tons in June 1936. By December 1945 it had declined by nearly 71 percent to 313,144 tons. The loss was greater for steam than for sailing vessels; 82 percent and just under 50 percent respectively. Losses in wharves, cranes, lights, buoys, berthing facilities and impediments to the use of facilities by silting were due to neglect rather than to destruction. In some places the Japanese preserved or improved facilities to meet military requirements.

After the termination of the war, tonnage was augmented by repairs to old ships, taking over Japanese and puppet ships and the purchase of new

ships. According to an unofficial estimate, this increased the tonnage to 500,000 tons. In addition 40 old surplus ships were purchased from the United States and Canada.

As in other forms of transport, UNRRA made important contributions to rehabilitation. Timber and technical help have been made available for the rehabilitation of harbour facilities. Two hundred pontoon cells were assembled into pontoons to replace destroyed pontoons in various parts of the country, and 30 steel barges were allocated for floating piers and wharves. In addition, 748 barges were imported for the Waterways Programme. Navigational aids were made available; (light buoys, coastal lights, lanterns and stationary light towers, minor accessories).

Causes of Deterioration.

The decline in production is attributable not simply to the dislocation of the current production by war conditions, but also to damage. Tungsten, antimony and tin mines were closed down, and subsequently flooded and caved in because of lack of maintenance. The remainder suffered capital depreciation because equipment and operating supplies could not be imported.

As a result of the reoccupation of territory and of acquisitions from UNRRA, the electric power capacity for the whole area of China, including Manchuria and Taiwan the power capacity has declined appreciably. The main causes of the decline were: in Formosa, intensive allied bombings; in Manchuria, removal of plants by the Soviet Army, and later (as well as in North China) interference with operations and destruction during the civil war; in China proper, poor maintenance, shortage of equipment and spare parts, and reduced supplies of coal.

The industrial picture generally must take account, not simply of the damage, depreciation and interruption to current production during a prolonged period of war, but also of the virtual stoppage of the industrial revolution which was in its early stages on the outbreak of hostilities. The acceleration of industrial development by the Japanese, especially in the North Eastern Provinces did not compensate for either the interference with development or the damage incurred during the war. There was great damage to physical assets, lack of maintenance, a shortage of replacements and heavy depreciation and obsolescence.

Present capacity in pig iron production is about 36 percent of pre-war, though for steel ingots the capacity is about 11 percent greater than before the war. Sugar production capacity is about 50 percent of pre-war, cement slightly higher than pre-war, and textiles 40 percent of pre-war. These figures do not tell the whole story; for actual output as distinct from capacity has declined even further below the pre-war maximum output.

Conditions during the aftermath of war have been conducive neither to the rebuilding of devastated or depreciated plant nor the maintenance of full capacity output with existing plant.

(2) THE FOOD POSITION IN 1947. China's Production of Food Crops, 1936, 1946 and 1947.

(For 22 provinces in Millions Metric Tons *)

	1936	1946	1947 Estimate	Increase over 1946 (percent)
Cereals				
Rice	48.0	47.4	49.4	4.7
Wheat	23.1	23.4	23.7	1.1
Barley	8.1	6.3	6.9	9.7
Oats	0.9	0.7	0.8	11.7
Kaoliang	7.7	5.5	4.9	10.0
Millet	6.8	7.8	7.8**	—
Proso-				
millet	1.6	1.4	1.4**	—
Corn	6.1	7.8	7.5	4.0
Root Crop				
Sweet potatoes	17.1	15.7	25.9	16.5
Pulses				
Peas	3.5	3.1	3.4	8.1
Broad beans	3.1	2.9	3.0	4.9
Soya bean	5.9	4.5	5.6	22.6
Seeds				
Peanut	2.6	2.2	2.2**	—
Sesame seed	0.9	0.7	0.7**	—
Rapeseed	2.5	3.8	3.8	—

* The 22 provinces include: Anhwei, Chahar, Chekiang, Chinghai, Fukien, Honan, Hopei, Hunan, Hupeh, Kansu, Kiangsi, Kiangsu, Kwangsi, Kwangtung, Kweichow, Ninghsia, Shansi, Shantung, Shensi, Szechwan, Suiyuan, and Yunnan.

** Assumed to be the same as in 1946.

On the average of the years 1933-37, rice imports in 1947 totalled 974,000 metric tons, wheat 585,000 metric tons and wheat flour 99,000 metric tons, the main suppliers of rice being Indo-China, Siam and Burma. The corresponding imports for 1946 were 123,000 metric tons, 359 metric tons and 178 metric tons respectively. Imports of rice from January to May 1947 were 148,000 metric tons, of wheat 35,000 tons and of flour 132,000 metric tons.

The total supply position appears to be approximately the same in 1947 as in 1936, increases in domestic production having been offset by smaller imports. Unfortunately, however, the disparities between different parts of the country are even more marked than in pre-war years as the result of the effects of the civil war and of the dislocation of transport. Populations handy to services of supply may have surpluses above pre-war consumption, but it is difficult to shift these to deficit areas. The loss through poor storage facilities and destruction of grain by rats is serious; considerable saving could be effected if attention is given to these factors.

The average production of *meats and fish* for the years 1934-47 is given at 6,407,000 metric tons. In 1946 it was lower by nearly 10 percent at 5,786,000 metric tons. Figures for the same years for *egg production* are 734,000 metric tons and 685,000 metric tons respectively.

Comparative data for *tea, sugar, vegetables and fruits* are too scanty and incomplete to be of much value.

Tobacco production declined in 15 provinces from 475,000 metric tons in 1936 to 378,000 metric tons in 1942, but by 1946 had recovered to 448,900 metric tons. In 22 provinces including the above 15, production was 633,900 metric tons in 1936 and 618,700 metric tons in 1946.

Reliable data on the pre-war *production of tung oil* is not available, but is considered to have varied round about 120,000 metric tons. Production for 1946, 1947 and 1948 is estimated at about 60,000 metric tons, or about half the pre-war production.

(3) THE COTTON POSITION.

Of great importance to the economy is the heavy decline in cotton production. There was some recovery of production in 1942 in the attempt to make good the loss of cotton imports on the outbreak of the Pacific War, but the decline continued thereafter until 1945. In that year production in Free China was 33.2 percent of the pre-war level, and Occupied China 28.2 percent.

The supply position is indicated by domestic production and external trade in cotton as follows:

Cotton Supply in China.

(in metric tons)

Year	Production	Imports	Total Supply
1936	848,800	36,800	884,900
1946	376,500	344,600	721,100
1947	550,000	59,200	609,200

For 1947: only first six months. Imports in 1946 include UNRRA relief. In 1936 there were exports recorded of 40,500 t.

(4) LIVESTOCK POSITION.

In 1946 there were stated to be 139,423,000 domestic farm animals and 254,717,000 head of poultry in 22 provinces (also Sikang, Sinkiang, Formosa, Jehol and Manchuria) as against 145,647,000 domestic animals and 311,095,000 head of poultry in 1936 in 22 provinces (without Sinkiang, Jehol, Manchuria and Formosa). Hence the decline in the aggregate appears important.

Figures are given in more detail as follows:

Livestock on Farms, 1936 and 1946 (in 1,000's).

Domestic Animals	1936	1946
Buffaloes	11,056	9,203
Oxen	22,299	22,885
Horses	3,418	4,967
Mules	3,913	2,828
Donkeys	10,041	6,847
Goats	17,868	17,859
Sheep	14,025	19,227
Hogs	63,027	55,605
Poultry		
Chickens	254,148	191,652
Geese	56,889	56,187

(5) FERTILISER & VETERINARY NEEDS.

In 1937, imports of fertiliser into China amounted to 167,621 tons of which 97 percent was ammonium sulphate. Taiwan, which relied heavily on chemical fertilisers for both sugar and rice, produced 30,000 tons and imported 410,000 tons as well as 167,000 tons of bean cake from Manchuria.

Taiwan's requirements are placed at 500,000 tons of chemical fertiliser annually, while China requires about 180,000 tons annually. Taiwan and China together are in a position to produce some 84,000 tons. Current import requirements are therefore about 600,000 tons annually, unless local domestic production can be increased. In view of the world shortage of fertiliser, projects are under consideration for the expansion of domestic productive capacity. These are estimated to require imported equipment to the value of U.S. \$50,000,000 and an equivalent amount in Chinese National Currency for the purchase of materials locally and erecting the plants. The full completion of these projects is estimated to raise domestic production to 855,000 tons, remove the need for imports, and indeed permit of some expansion in the use of fertilisers.

There is a similar need for supplies of insecticides and fungicides. With the aid of UNRRA supplies, there has been much progress in insect and disease control. Further supplies are needed, the provision of which, from plants in Shanghai, Peiping and Mukden, is handicapped by lack of materials, machinery and accessories.

In addition, imports are needed which include 720 tons of stomach poisons, 280 tons of contact insecticides, 40 tons of fumigants and 350 tons of fungicides. In addition, about 600 kinds of drugs, 500 items of equipment and 200 titles of reference books and periodicals are listed as immediate needs for China's veterinary programme.

Such requirements are of especial importance in view of the losses in domestic animals. So also is an increase in the number of technical personnel and the extension of facilities for technical training. Apart from the war, annual losses from contagious disease are high. They are normally about 60 percent for chickens, 20 percent for hogs and 5 percent for cattle and buffaloes.

(6) LIVESTOCK & SEED REQUIREMENTS.

In addition to reducing losses from disease, the Chinese Government plans to improve the native breeds by importing livestock and poultry.

Seeds are also required to improve the varieties of plants. Improved varieties of rice, wheat, cotton, millet, sweet potatoes, sugar cane, oranges and apples are available. Many improvements have been made by Chinese agriculturists and have increased yields of from 10 percent to 20 percent; but imported seeds are also needed, especially for cereals, cotton and vegetables. Among import requirements are 1,500 metric tons of cotton seeds of Delfos 531 and the same amount of Stoneville 4, both being obtainable from the United States. In order to promote the extended use of such improved strains, more trained agriculturalists for extension work are needed.

Shortages of farm implements still have to be made good. The Agricultural Implements Programme of UNRRA and the National Agricultural Engineering Corporation (organised on a non-profit basis by the Ministry of Agriculture and the Farmer's Bank), provides for the manufacture of a wide range of farm implements and the development of improved models. The full programme is estimated to require 3,000 tons of equipment, 7,000 tons of material and over 5,000 technical personnel, including engineers and mechanics.

(7) FLOOD PREVENTION & IRRIGATION.

The necessity for the prevention of floods and for development in irrigation and drainage is urgent. Large areas could be reclaimed or improved by these means, thereby both increasing average animal production and reducing the danger of famine. Irrigation needs include digging wells in the Northwest and repairing canals and waterways and digging wells and installing pumps in the Southeast;

Short-term needs for irrigation include:

Power driven centrifugal pumps, low lift, low head, with engine, suction and discharge pipe: 6" 8,000 units, 16 H.P.; 8" 6,000 units, 25 H.P.; 10" 3,000 units, 45 H.P.; 12" 1,000 units, 60 H.P.

Well drilling rigs 880 units, 4" Pipe. Deep well pumps, 13,200 units, 4" Suction pump 16 H.P.

In addition, equipment for manufacturing well drilling rigs and pumps should be supplied so that China can establish plants to meet her own needs. Technical assistance in operating and manufacturing irrigation equipment is necessary.

Short-term irrigation projects over a three-year period could cover 2.9 million hectares at an estimated cost of U.S.\$20,000,000. These are expected to increase crop production by 200,000 tons a year.

Large scale flood control and drainage projects are also proposed.

INDUSTRIAL POSITION Major Groups of Industry.

Commodity	Pre-war Capacity	Pre-war maximum output	Present capacity 30%	Present Output
Coal (m.t.)	55,000,000	41,000,000		1946—15,010,000 1947— 8,577,000 (half year) 1948—25,000,000 (planned)
Pig Iron (m.t.)	1,536,000	3,522,650	549,450	Nil
Steel Ingots (m.t.)	710,400	1,592,860	800,000	first half of 1947: 5,676 first half of 1948: 7,512 725,000
Cement (m.t.)	2,240,000	1,463,376	2,650,000	2.475 million tons of yarn
Textiles	5,082,000 spindles	5.9 million tons	3 million spindles	
Textile Industry In China.				
		1937 (millions)		1947 (millions) (for first 6 months)
Number of spindles (excl. doubling)		5		4.5
Spindles working		5		3.8
Production of yarn		879 lbs		323 lbs.
Production of cloth		(1,219 yds. (365 lbs.		(251 yds. (338 lbs.

Destruction, damage and depreciation of equipment and inability to procure replacements are among the major causes of the decline in capacity. Decline in production is due not only to these factors but also to dislocation of transport, reduced supplies of power and raw materials and the general economic dislocation occasioned by war. Inflationary conditions, which have gathered momentum, have disturbed the relation between cost and market price to such an extent that production has suffered significantly. It has resulted in the diversion of capital to speculation, rather than to production, unprecedented increases in interests, wages and salaries, flight of capital and the neglect of capital equipment.

Mining Industry.

The best pre-war output of coal was 41,000,000 metric tons as against 15,000,000 metric tons in 1946.

For other minerals the comparable figures are as follows:

Mineral	(metric tons)		1946	1947
	Best Pre-war Production			
Tungsten Ore	14,541	2,331		5,500
Antimony (Regulus)	15,185	971		2,700
Tin	12,954	1,963		1,750
Copper	483	100		1,000
Lead	7,820	400		100
Zinc Ore	14,567	100		80

In terms of gold the American currency in 1947 remained undervalued (against the official price of the U.S. Treasury and the International Monetary Fund gold parity of US\$ 35 per one troy oz.). On the average the free gold market of New York discounted US\$ in terms of gold by 15% (quoting on the average US\$ 42 per oz.). On the average the Hongkong unofficial gold market in 1947 discounted US\$ by 30% (quoting about US\$ 50 per oz.), while in Shanghai and other Chinese unofficial or black markets the US\$ was discounted by almost 40% (US\$ 60 per oz.).

The official gold price in Hongkong (parity) amounts to HK\$ 138.96 per troy oz. The unofficial price, however, is almost double this price (currently \$275 per oz. and US\$53/4 per oz.).

SURRENDER OF US\$ EXPORT BILLS

Hongkong Exchange Control requires all exporters of tung oil, silver and tin shipped to the U.S. and other hard currency countries to sell to Government (through a member bank of the Hongkong Exchange Banks Association) 25% of export bills. Since the institution of compulsory US\$ export bills' sales to Government (which started as from June 9, 1947 for tung oil and tin) the required percentage of 25 has not undergone any change. Silver has been added last autumn unofficially at first, and put on the list of so-called Restricted Exports as from the beginning of 1948.

However, there are another five Restricted Exports viz. desiccated coconut, raw rubber, pepper, diamonds and gunny bags, the export bills of which have to be surrendered fully before an export licence is issued. While as regards tung oil, silver and tin (all originating in China and re-exported from here) it is the desire of Exchange Control to obtain—for purposes of very limited essential import financing of American commodities—some funds in New York, the purpose of requiring exporters of the other five items to surrender 100% of their proceeds in US\$ (or other hard currencies) is to retain the full exchange value of commodities which originate in the Commonwealth and Empire. The supply sources for the five items are mainly Malaya, India and Pakistan, the Union of South Africa.

GOVERNMENT EARNINGS IN US\$

The principal motive of Government to request exporters of tung oil, silver and tin to sell at the official exchange rate one quarter of their export bills has been, and continues to be, the desire to obtain a limited amount of US\$ funds so as to cover essential import requirements of the Colony.

Exchange Control earnings of US\$ are, however, far from being sufficient to finance all essential imports as inward remittances (mostly from overseas Chinese in the U.S.) have dwindled

EXCHANGE & FINANCIAL MARKETS

DISCOUNTS OF STERLING.

The operation of an official open exchange market in Paris has revealed nothing new as regards sterling; there are two rates quoted all over the world for sterling, the official London/New York cross rate of US\$ 4.02/4.03, and the unofficial cross rates which fluctuate according to season and markets between US\$ 3 to 3.20 for TT and drafts. There is a third rate, of insignificant importance for trade, which is quoted for pound notes; this rate is currently moving between US\$ 2.40 to 2.50. With minor differences these rates are quoted in European, Near and Middle Eastern, North and South American markets, and, of course, also in Hongkong and the Far East.

The open market of Paris has, if confirmation was required, again confirmed that all international exchanges, permitted or prohibited, officially overlooked or connived at within certain limits, are inter-related and by means of arbitrage cancel out any differences as soon as they arise. The Paris quotations show that the pound note is quot-

ed at 15 to 20% lower than the TT London rate, and that it costs about US\$ 2.40 to 2.50 in Paris to buy a Bank of England £1 note. The same quotation holds in New York's free exchange market while in Hongkong at present also about US\$2.50 purchase one pound note. The pound bank note, as quoted at the unofficial exchange market of Hongkong, is quoted between 15 to 20% lower than the TT London rate. In terms of open funds in New York, sterling drafts and TT quote around 25% lower.

In the free exchange market of New York freely convertible sterling is quoted at a discount of about 25% while the current discount for Bank of England one pound notes fluctuates between 35 to 40%. This situation has, with minor but short lived violent upward or downward movements, persisted since the end of war. Periodic crises were responsible for greater than usual fluctuations but rates always returned to the above approximate levels of discounts on sterling (drafts and pound notes).

as a consequence of the general practice by remitters to send to Hongkong drafts payable in the U.S. which are, upon receipt here, sold in the local unofficial market where US\$ drafts command a premium of about 25% over the official rate.

Many essential imports of consumers' goods, capital equipment and industrial raw materials to a large extent, have still to be obtained in the U.S. as the supply sources within the sterling area are not yet able to cope fully with the demand. Accordingly, payments in US\$ for such essential imports have to be provided by Hongkong Government from its dollar earnings. The sifting of the more essential from the less essential import requirements has caused much disappointment among merchants and manufacturers in the Colony who, however, appreciate the difficulty of Government who cannot allocate more US\$ than is surrendered by exporters or comes in from steadily decreasing US\$ inward remittances.

Exchange Control will, therefore, be well advised to extend its list of Restricted Exports in order to secure a larger amount of US\$ for the benefit of local import requirements which can classify as essential from every point of view.

A large number of export commodities shipped to the U.S. should be made to surrender a certain percentage of their export bills, say 10%; or there should be introduced a graded scale providing different percentages for different export commodities in accordance with market prices and customary profit margins.

At the same time the 25% exchange surrender now imposed on tung oil exporters could be reduced in order to attract more business to Hongkong. As it is, the tung oil exporters may feel that they alone are to carry the burden, although an honourable one, of assisting in Hongkong's official import financing. A study of the list of our exports to the U.S. in 1947 will reveal that there are a good many commodities which could comfortably afford to retain only 80 or 90% of their export proceeds while selling the remainder at the official rate to Government.

GOLD TRANSACTIONS

Two factors determined the gold as well as other financial markets last week: the anxiety about the future position of sterling, and the technical question regarding Chinese New Year settlements and the prolonged suspension of financial transactions following the Lunar New Year (lasting one full week).

As to the possibility of sterling devaluation everybody is left to his own more or less sound judgment; the best thing to do is to follow the developments in the great capitals of the world and to remain undisturbed by local rumour-mongers. There is no indication for an

official devaluation by London; on the contrary, the British Government has made it clear that it will adhere to the present cross rate. The materialisation of the American program of assistance to Western Europe has, of course, the most vital bearing on the currency position of all countries included in the so-called Marshall plan. Provided that there will be no serious delay and no important scaling down of the figures recommended by the U.S. Administration, there should be no further instability of sterling in terms of US\$. Within the next 6 to 8 weeks the answer to the future rate of sterling (in terms of US\$) will clearly emerge. Flight from sterling, which expressed itself here also by gold buying as a hedge, could easily bring losses to nervous investors. Any purchase in excess of about US\$50 per oz is highly speculative. Last week's cross rates were, however, ranging between US\$53½ and 54%.

The suspension of business, as from Feb. 7 and until 14th, in a time of international unrest and consequent fluctuations on financial markets has injected a note of unusual pre-holiday nervousness. However, the traditional merry-making and resting of all Chinese, modern and medieval, is a habit which cannot be easily uprooted. There will be daily unofficial transactions in gold and some foreign currencies (except on Feb. 10 and 11) but the volume will be restricted as native banks, their big customers, the Exchange, and the hoi polloi always stay away from business; thus unofficial quotations, which on the whole may remain within the range of last week's closing prices on the Exchange, will have little bearing on the local or China financial markets.

The local market appeared to suffer from a scarcity in gold supplies which also contributed to the advance in prices and the steady trend. Demand from China was at times hectic and upset local bullion brokers who, in the face of strong insistence, would have preferred to hold back until adequate new supplies from Macao were assured.

During the last two weeks such supplies appeared on the decline which was due to heavy direct sales (and transportations) from Macao to Canton and other South China centres (from where the gold stream also flows to the Yangtse valley and Shanghai), to a partial diversion of gold imports to Rangoon (in transit for India) and the limitation of gold imports by the Macao Govt.

There is still much gold arriving daily in Hongkong, and during last week these transportations were in spite of searches and a few seizures larger than usual; unloading of gold from the flying shuttle service continues in Macao but quantities have decreased. Some lots originally intended for importation into China, via Macao, have, upon arrival in transit in Saigon, been re-directed and flown to Rangoon from where Indian bullion importers smuggle it into India (through a cooperating princely State).

The Macao Govt. has negotiated with Chinese officials recently, without any tangible result so far; the purpose of the talks having been to induce the Portuguese authorities to self-impose some limitations on their nationals' and Macao residents' gold import business. It is, of course, not unlikely that a compromise, behind the scenes, may be reached which would oblige Macao to limit gold imports (thus securing a smaller share for gold smuggling into China)—but how faithfully such agreement would be observed, or could be enforced by the Portuguese authorities, remains to be seen. The very prospect of such agreement has already caused uneasiness in the local gold market and has contributed to higher prices.

The local market quoted last week highest and lowest, per tael, \$349½ and \$331 (cross rates US\$53½ to 54%). The Shanghai cross rates moved around US\$60, reaching at times over US\$63 per oz. The daily averages in Shanghai last week were (per oz, in CN\$ millions):—9; 9.9; 10.7; 11.9; 11; 11.2. Pre-holiday closing rates: 10.9 to 11.2 million. Canton gold market kept always higher than Hongkong, opening last week at HK\$336/339 and closing at 350/356 per tael.

The gold markets of Swatow and Amoy quoted at the end of last week one oz. at CN\$12½ million (cross rate reaching US\$70 per oz.), while quoting TT Shanghai about at par, US\$ notes at CN\$166 to 175,000, and TT Hongkong at CN\$32 to 33,500.

The turnover on local spot market amounted to 22,000 taels (inside Exchange) and 13,000 taels (curb market).

SILVER BUSINESS.

Under sterling devaluation rumours there was some hedging in silver and prices were firmer last week. The demand in New York is as strong as ever and the tendency there is encouraging business in Hongkong. Prices paid were: \$3.88 per tael, \$2.44 per silver dollar coin, \$1.88 per 20 cents silver coin. Exporters kept on shipping or preparing for shipment large numbers of cases to U.S.

US\$ TRANSACTIONS.

Merchant demand was conspicuous last week which, together with speculative buying of TT New York, firmed up rates. Several American ships were unloading cargo here which had to be paid by importers in U.S. notes or drafts. Before Chinese New Year many small investors like to put away some spare cash in US notes, a habit which was accentuated last week by the apprehensions about the future of HK\$ in terms of US\$.

Highest and lowest rates on the local unofficial market: notes HK\$523—511; drafts 522—511; TT 533—518. (Cross rate from US\$3.08 down to US\$3).

BANK NOTE MARKETS.

The free exchange market of Paris has caused new interest in local piastre speculation and prices remained firm at over \$11 (reaching over \$12 even) per 100 piastres. Ideo notes, now out of circulation, quoted \$8. Total sales on spot market were in excess of 6 million piastres.

Pound notes at \$12.80 to 12.90 were finding buyers who either hoard them, considering the price very low, or ship them elsewhere.

CHINESE MONEY MARKETS.

On Feb. 3 the official open market rate of Central Bank of China was increased for the third time in 1948 from CN\$119,500 to 131,500 for TT New York. The rate for TT London was increased from CN\$375,000 to 413,000. Official cross rate: US\$3.15. The official open market rates for TT Hongkong and TT Bombay were fixed at CN\$25,705 and CN\$30,921 respectively.

This action by the Foreign Exchange Equalisation Fund Committee is a most welcome and progressive step. The official and the black market rates have

been brought more in line although the difference is still considerable; the official TT New York rate and the official TT Hongkong rate are still lower than the black market rates respectively by 35% and 25%.

Shanghai quoted unofficially for US\$ notes from CN\$172,000 (lowest) to 188,000 (highest) while Hongkong notes sold between CN\$32,500 to 33,800. Canton quoted Hongkong notes, spot, from 28/29,800 at the beginning of the week under review to CN\$29/32,000 at the close.

The local spot rates were HK\$37½, highest, and 36, lowest; and for future delivery HK\$32½, highest, and 28½, lowest (for one million CN\$).

THE CHINESE BUDGET.

Our opinion on the Budget for the first six months of 1948 as compiled by the Chinese Finance Ministry at Nanking was expressed in the leading article of this Review's issue of January 14. A more authoritative view comes now from Mr. Lu Tung-sun, the secretary general of Nanking's Legislative Council and also the National Economic Council. Mr. Lu does not believe that the Budget has been made up in good faith, that official revenue for the first 6 months will be much smaller than estimated and even if attaining the full estimated amount could only suffice to pay the salaries of civil servants and official administration expenses. Funds for running the war, restoration of communications and reconstruction would have to be obtained elsewhere.

Though revenue were listed as CN\$ 58 trillion in the budget, actual revenues are not to be expected to exceed 30 trillion. Some 28 trillion of the estimated revenue are dubious.

Legislative Yuan members, now reviewing the budget, are gravely dissatisfied with the budget. Some members suggest throwing it out in favour of a new one compiled by the Legislative Yuan.

The budget might be pushed through the Legislative Yuan without changes but with a vote of censure to Government attached. The censure vote will include:—

(1) The Legislative Yuan regrets that since its inception it had never been able to fulfill fully its responsibility in reviewing Government spending.

(2) The Government practice of sending the budget to the Legislative Yuan after it had already come into effect makes a rubber stamp of the Yuan.

(3) Government lacks a sense of responsibility for drawing up the current budget without laying down any administrative policy to cover the next six months;

(4) The Ministry of Finance failed to adjust tax rates according to the fluctuating price level and most taxes are only 20 percent of what they should be.

PRINCIPLES & OPERATION OF FOREIGN EXCHANGE CONTROL IN THE NETHERLANDS EAST INDIES

Basically, pre-war exchange-control regulations still apply in the Netherlands Indies. Several Executive decrees and announcements have, however, been promulgated to adapt operation of control to current conditions. Among the most important was the devaluation of the Netherlands Indies guilder by 40 percent, making the rate 2.615 guilders to the US\$.

Furthermore all residents have been obliged to surrender their holdings in foreign circulating media, securities, and claims for disposal of the Exchange Control Institute. At the same time, regulations were issued as to how owners of such holdings should be credited in terms of Netherlands Indies guilders. Foreigners residing in Netherlands Indies are exempted from the above obligation only insofar as their holdings in their own countries are concerned. Since early last year, Netherlands Indies holders of foreign shares are allowed to sell their holdings on foreign stock exchanges. Proceeds therefrom may be invested immediately in foreign treasury bills; if not, they must be surrendered for disposal to the Exchange Control Institute. The purpose is to allow holders of foreign shares to take advantage of prevailing high prices. However, inability to revive the export trade to something approaching its prewar volume has prevented establishment of a fluid exchange position.

Because of the extreme shortage of foreign exchange, imports have had to be drastically curtailed and funds are being allocated for the purchase abroad of only such goods as are considered absolutely essential. The authorities

OFFICIAL EXCHANGE RATES IN 1947

Highest & Lowest Rates as quoted in London

	Lowest	Highest
New York ..	4.02½	4.03½
Montreal ..	4.02	4.04
Manila ..	8.07	8.14
Belgium ..	176½	176½
Czechoslovakia ..	201	202
Denmark ..	19.32	19.36
France ..	479.70	480.30
Holland ..	10.68	10.70
Norway ..	19.98	20.02
Switzerland ..	17.34	17.36
Spain ..	44.00	44.00
Portugal ..	99.80	100.20
Sweden ..	14.47	14.50
Syria & Lebanon ..	8.80	8.85
India ..	1/5.15/16d.	1/6.1/16d.
Singapore ..	2/3.31/32d.	2/4¼d.
Hongkong ..	1/2.15/16d.	1/3.1/16d.
Alexandria ..	97¼	97¾
Brazil ..	75.3948	75.4416
Uruguay ..	7.209	7.661
Net. East Indies ..	10.68	10.70
Net. West Indies ..	7.58	7.62
Iran ..	128	130

HONGKONG UNOFFICIAL EXCHANGE RATES (IN HK\$)

Feb.	Gold	per Tael	CN\$ (per one million)						S'hai T.T.	Canton T.T.	Notes	US\$ (per 100)			Guilder	Baht	Pound
			Spot		Forward		Draft	T.T.				I.C.\$					
			High	Low	High	Low											
2	336½	331	37½	36¾	32½	30½	35½	33½	512	512	519	11	32	26½	12.8		
3	336½	332¾	37	36¾	31	30	33¾	34	511	511	519	11	31¾	26½	12.9		
4	337¼	332¾	37	36¾	30	29¼	32¾	33	512	513	520	11	33	26½	12.9		
5	343	338	37¼	36½	29¼	28½	31½	32	519	521	527	12	32	26	12.8		
6	349¼	340	36½	36	31	29¾	33½	34	523	521	533	11¼	31½	26	12.9		
7*	348¾	346	36¾	36¼	—	—	32	33¾	523	522	533	—	31½	25	12.8		

* Outside Market rates.

HONGKONG STOCK & SHARE MARKET

A brisk and active market was reported for the week Feb. 2nd to Feb. 6th. Volume was equal to, if not in excess of, the peak in the two boom periods of 1947. Business was well spread but the best "performers" were Hongkong Lands, China Lights, Hongkong Electric, Ropes and Watsons. The volume of reported transactions exceeded 9½ million dollars for a total of 302,808 shares. A firm tone was noticed at the close with many unsatisfied buyers.

The opinion of observers is that the market trend is still upward although there may be intermittent dips in the course of the upswing. Factors supporting this view are the excellent working results of locally listed Companies, plus the flight of capital into sound equities in fear of repercussions from the devaluation of the Franc.

Another Company to declare a dividend for 1947 is the Humphreys Estate & Finance Co., Ltd., which reports a profit of \$668,966. The Board will recommend at the annual meeting to be held on the 27th inst. a dividend of \$1.00 per share and a bonus of \$1.00 per share both free of tax. This compares with the total distribution of \$1.00 per share for the year 1946.

Rumours are rife that good dividend payments will be declared in the near future of Hongkong Wharves, Water Boats, China Provident, Hongkong Lands, Hongkong Electric, Cements, Ropes and Dairy Farms.

Devaluation rumours were renewed afresh during the week and spurred the volume of transactions in popular counters. In many quarters it is believed that devaluation of the pound sterling is inevitable. The gloomy outlook painted by Sir Stafford Cripps further strengthens this view. Despite his statement that the Government has no intention of devaluating sterling at the present time, his qualification of this statement, that "No one can tell what the future may bring nor is it in our control to determine alone the course of world events which may compel us to act in this way or that", is significant, and may bring about a fresh buying orgy.

The Felix Ellis' price index showed a net gain of 1.30 points compared to the close of the previous week. Day-by-day his averages were: Feb. 2nd, 147.25; Feb. 3rd, 147.71; Feb. 4th, 148.00; Feb. 5th, 148.16; Feb. 6th, 148.24. The High and Low for 1947

were 155.82 and 123.88 respectively. The low for 1948 was 145.26 on Jan. 14, and the High 148.60 on Jan. 27.

Business done:

BANKS: H.K. BANKS came to business at 2,065.

INSURANCES: Business was done in CANTONS at 390; and in UNIONS at 790, 792½, 787½.

SHIPPING: WATERBOATS old were in continued demand and culminated in small business at \$50.

DOCKS & GODOWNS: Transactions in this section were as follows: WHARFS old at 175, 183; H.K. DOCKS at 36, 35½, 35½, 35, and 34½; PROVIDENTS at 24½, 25, 24.90, 25¼, 25½, 25¾, 26, 26½, 26¼; SHANGHAI DKS. at 26½.

HOTELS & LANDS: HOTELS had business at 24½, 24¾, 24½; H.K. LANDS old at 86¼, 86, 86¾, 87, 88, 88¾, 89, 89½, 90; new at 86½, 88; SHANGHAI LANDS at 5½, 5¾; and HUMPHREYS at 30, 31.

UTILITIES: Business in this section were as follows: TRAMS at 24½, 25, 25¼. 25: PEAK TRAMS at 17; STAR FERRIES at \$143, 141; YAU-MATI FERRIES 36¾, 36½, 37, 38½; CHINA LIGHT old at 21.40, 21½, 21¾, 22, 21.85, 22, 22½, 22.60, 22¾, 22½, 22¾, 23; new at 17, 17½, 17¾, 18, 18¼; ELECTRIC old at 56, 55½, 55¾, 56¼, 56½, 57, 57¼, 57½, 57¾, 58, 57¾, 57¾; new at 53½, 54, 53¾, 55½, 55¾, 55¾; TELEPHONES old at 39, 40, 41, 41½; new 38, 39.

MINING: RAUBS had business at 6¼ while H.K. MINES was in demand at .03.

INDUSTRIALS: Business in this section was reported as follows: CEMENTS old at 38, 38½, 39, 38¾, 38¼, 38¼, 38; new at 35; ROPES at 21½, 21¼, 21.40, 21¾, 22, 22¼, 22½, 22¾, 23, 23¼; DAIRY FARM X Rts. 67, 68, 68¼, 68, 67¼, 67¾, 68; DAIRY Rts. at 42, 42½, 43, 43¾, 43½, 44, 44¼, 44½; WATSONS X Rts. at 55, 56, 56¼, 57, 56¾, 57, 57½, 57¾, 58¼, 58½, 58; WATSONS Rts. 27, 27½, 28.

STORES: Business was done in LANE CRAWFORD at 54¼, 55, 54¾, 54¼, 54¼. 55: CHINA EMPORIUM at 12.80; SINCERES at 9.30.

MISCELLANEOUS: H.K. CONSTRUCTION old had business at 7; H.K. Govt. 4% had sales at 102½ and the 3½% at par.

COTTONS: EWOS had sales at 17.30, 16.

RUBBERS: Business was done in Anglo-Java at 6¼, 7; Tebong at .70.

HONGKONG STOCK EXCHANGE TRANSACTIONS.

The turnover for the first week of February, ended the 6th, amounted to \$9,546,494. This figure represents a record which has only been reached during one or two weeks in 1947. Turnover figures for the two preceding weeks: \$6,190,715 and \$3,058,516.

Sales during the week under review were as follows:—

Name of Stock	Highest Price	Lowest Price	No. of Shares sold
H.K. Banks ..	2,065	2,065	42
Union Insur. .	792½	787½	100
Canton Insur. .	390	390	50
H.K. Fires ...	315	310	50
Wharves	185	175	150
Docks	36	34½	3,360
Providents ...	26½	24½	38,402
Hotels	24¾	24¾	40,900
Lands, old ...	90	86	4,343
Lands, new ...	88	84	1,622
Humphreys ...	31	30	12,300
Trams	25¼	24¾	22,300
Star Ferry ..	143	141	450
Vaumati Ferry	38½	36½	697
Electrics	58	55½	15,300
Electrics. Rts.	55¾	53¼	10,176
Lights, old ...	23	21.40	46,880
Lights, new ...	18¼	17	7,080
Telephone, old	41½	39	2,850
Telephone, new	39	38	1,200
Cements	39	38	12,900
Ropes	23¼	21.40	18,750
Dairy Farm ...	68¾	67	7,550
Dairy Farm, Rts.	44¼	42	6,435
Watsons	58½	55	36,820
Watsons, Rts. .	28	27	10,450
Lane Crawford	55	54½	2,000

Other sales included:—3,360 Rights of Wharves; 1,000 shares of Cements new at \$35; 500 Constructions at \$7; 600 Waterboats at \$50; 1,000 Shanghai Dockyards at \$26.25; 500 Ewos between \$16 and 17.70.

HUMPHREYS ESTATE & FINANCE COMPANY LTD.

The amount at credit of Profit and Loss Account for the year ended December 31, 1947, amounted to \$668,966 which, added to the sum of \$29,820 brought forward from the last Account, leaves \$698,786 available for appropriation.

This sum will be appropriated as follows:

Dividend of \$1 per share (free of tax), \$200,000; bonus of \$1 per share (free of tax), \$200,000; transfer to General Reserve, \$150,000; transfer to provision for special repairs and renewals, \$35,000; transfer to provision for taxes and contingencies, \$70,000; carry forward, \$43,786.

determine the types, qualities, and quantities of merchandise and equipment that may be imported within a given period. This business is then allocated to various importers on the basis of their pre-war turn-over, and they are granted the import licences and foreign exchange necessary to effect such transactions.

BRITAIN'S ECONOMIC RECOVERY IN 1947

Assistance of the Dominions — The Marshall Plan

The year 1947 will be remembered as the year of the failure of the convertibility of Sterling. The business world started the year with high hopes that the large loan from the U.S.A. of \$3,750,000,000 would help to put this country on her feet again, after the years which "the locust hath eaten". This equanimity received its first shock by the hard winter and the shortage of coal which necessitated cuts in power for industry and private users. The winter came to an end with heavy falls of snow, followed by rain which caused disastrous floods over large areas of the country ruining the prospects of early crops which were so much needed.

It will be remembered that on granting the loan to this country, the U.S. authorities stipulated that 12 months after the granting of the loan, sterling should be made freely convertible into other currencies for current transactions. This clause came into effect on the 15th July, and no doubt this, and the discrimination clause, contributed largely to the rapid spending of a large amount of the dollar resources placed at our disposal. It was on the 20th August that the Chancellor of the Exchequer announced that sterling would no longer be freely convertible. On that date only \$400,000,000 was left of the \$3,750,000,000. American account sterling had been freed from the date of the passing of the loan, and it is thought that many foreign holders of pounds took advantage of this convertibility clause to convert their balances into dollars. As the Chancellor of the Exchequer said, "it is a grievous disappointment to us as it must be to our good friends in the U.S. and Canada, that this great effort at post-war financial reconstruction has resulted in a setback," but it must be obvious to all that the loan was not only utilised for the benefit of this country.

These unhappy incidents in the past year have not passed without a salutary effect upon the nation, and it is conceded on all hands that we must work out our own salvation, and that the gap between our Imports and Exports will have to be closed if we are to survive as a first-class nation.

Higher Production

There are, we are glad to say, encouraging signs that our industrial production is getting into its stride again, as is evidenced by the increased coal output and steel production, but a greater effort will still have to be made to produce, as we have said before, 5 million tons of coal per week—we have done it before and can do it again. Also a larger part of our country should be given over to growing food as the time is not far off when we shall not be able to import food from the dollar areas for the simple reason that we shall have no dollars to spend.

This dollar famine has forced us to make bi-lateral agreements with other countries who will take our goods and sterling in exchange for their primary products. On the 27th December it was announced that a Trade Agreement had been signed with the U.S.S.R. and negotiations are at present taking place in London with the Danish authorities with every prospect of success.

But above all, we rely upon the kindly help of the great Dominions of the Commonwealth who are always so generous and large-hearted in their dealings with the Mother country.

Since the 20th August, when convertibility was stopped, the Bank of England has remitted gold to the value of £128,000,000, mostly to New York, and has bought \$240,000,000 from the World Bank, besides using \$200,000,000 of the balance of the loan. These sums, added on to the amount spent of the loan to 20th August, viz., \$3,350,000,000, make a total of \$4,302,000,000 used by our control in a year. This is without reckoning what has been spent in Canada out of the Canadian loans.

As a net result, there is no doubt that a considerable amount of this large sum which was a sterling liability, has been converted into a dollar liability, which we shall find a burden hard to be borne, and harder to pay off.

Possible Devaluations.

There is a growing feeling in many countries that the schedule of par values for currencies fixed with the International Monetary Fund in 1946, has become unreal in the face of present day conditions. The ravages of six years of war has left European countries so impoverished that unless further substantial help is forthcoming in the shape of the Marshall Plan or some such aid, devaluation will be unavoidable. Italy has two rates of exchange, one a free market for exporters and another official rate is fixed monthly. France is pressing for some such arrangement with the International Monetary Fund.

Arbitrarily to fix exchange rates in the face of an economic blizzard seems to us like "tinkering with the barometer" in the hopes that it will appear to continue reading "set fair".

Balance of International Payments.

In the House of Commons on 18th December, the Chancellor of the Exchequer, speaking on the balance of payments position, said it was one which would persist, perhaps with varying emphasis, far into the future.

During October we sold £35 millions of gold, of which £30 millions was in the U.S., and we received £12.2 millions of gold, of which a little over £10 millions came from South Africa, showing a net loss of gold of £22.8 millions.

In November we sold £47.8 millions, of which £40 millions was in the United States and nearly £5 millions to Belgium towards clearing up the balance under the then existing payments agreement. During November we purchased £11.3 millions of gold, of which £10 millions was from South Africa, showing a net loss of gold of £36.5 millions.

We were having talks with many countries. Agreement had been reached with Canada.

For 1948 we should require about £1,600 millions worth of imports and we should have invisible imports of about another £100 millions of Government expenditure overseas. For exports and re-exports we should obtain, if we were to fulfil the export programme, £1,550 millions, and from shipping, oil and services, together with income from overseas investments, we should get another £130 millions net. This would give us substantially an overall balance; but even if we did all that there was still within this total balance a deficit with the Western Hemisphere of nearly £300 millions.

We must continue to encourage three-corner trade and hope that the sterling area as a whole would be able to increase its exports into the United States or that Europe as a result of the Marshall Plan might be even more closely linked than before. We were actively studying how that closer integration of our economy with Europe might be brought about.

The overall picture showed an encouraging revival of our internal industrial activity, but the export position was not quite so encouraging. We had already lost sales because of our high price level.

There was also the problem of restrictions on our goods imposed by other countries. Here we could only do our best to persuade them to admit as large a range of our goods as possible.

We must sell everything we can for hard currency. We must not be deflected from this paramount objective. This was particularly true of textiles.

There is no need for pessimism so long as we all do our best, but we must realise that this is a long up-hill struggle which, with the help of our friends overseas, we can and shall win through.

Record Bank Clearings.

The Bankers' Clearing House in its Annual Statement shows the Grand Total of Clearings during 1947 to have been £77,329,687,000. The total for 1946 was £69,011,371,000, but this figure is not strictly comparable with that for 1947, which is again compiled on the same basis as those for the pre-war years. The Grand Total in 1938 was £39,610,229,000.

American Assistance to Europe.

On 19th December, Congress adopted the interim foreign aid Bill providing \$522 millions for France, Italy and Australia, and \$18 millions for China after the Senate and House conference committee had agreed to those figures. The House approved the Bill by 233 votes to two votes against. The Senate then passed the Bill by voice vote.

The Bill was signed by President Truman on 23rd December.

President Truman sent to Congress the draft of the Economic Co-operation Act of 1948, recommending a programme to help the recovery of 16 European nations and Western Germany over four-and-a-quarter years—from 1st April, 1948, until 30th June, 1952. To cover this period an authorization was asked for of not more than \$17,000 millions, but with a firm appropriation for the first 15 months of \$6,800 millions.

The draft Bill provides for the establishment of a new agency, to be called the Economic Co-operation Administration, headed by an administrator and a deputy administrator. It will be independent of other agencies, except that functions which affect foreign policy must be performed under the direction and control of the Secretary of State. There will also be a special representative in Europe, with the rank of Ambassador, who will be the chief United States representative with any European organization which may be established by the participating countries. He may also be the United States representative on the Economic Commission for Europe.

The Administration considers that the nature of the problem of European recovery makes it advisable that United States assistance be neither in the form of lump sum advances of money to European countries nor solely in the form of deliveries of specified quantities of a selected list of commodities. The programme will require more effective control by the United States over the expenditure of funds than would be possible under a system of lump sum advances, which would allow European countries to compete against each other for limited supplies in the American market. It will also require greater flexibility than would be possible if the delivery of commodities only were allowed. So the administrator is empowered to make funds available to any participating country or to use any Government agency to procure commodities.

U.S. Grants & Loans.

Assistance will be partly in the form of grants and partly loans. In general, grants will be used for financing imports or current supplies of food, fuel, fertilizer and raw materials not used for capital development. Loans will be used for financing imports of capital equipment and raw materials to be used in connection with capital development. But no grants will be made to countries considered able to pay cash or to repay loans covering all classes of imports.

The administrator must consult with the National Advisory Council to determine whether a loan should be made, and all loans will be made through the Export-Import Bank, to which the administrator will allocate funds for the purpose.

One clause designed to encourage private investment authorizes the administrator to guarantee the convertibility of foreign currency received by a United States corporation which establishes a factory plant or embarks on some other project abroad in furtherance of the purposes of the Act. The guarantee is limited to the amount of the investment made and does not insure against ordinary business risks. These guarantees can be made up to the limit of 5 per cent. of all appropriations made under the Act and are limited to a period of 14 years from the date of the enactment.

The administrator is allowed to provide funds to increase the production of raw materials needed by the United States for stockpiling purposes, but all such materials must be paid for out of funds appropriated under the Stockpiling Act. There is no suggestion that strategic materials should be supplied by the participating countries in future in repayment of grants. The President accepts the view of the Harriman Committee that the European countries will be unable to repay funds provided for non-productive purposes and that these should be genuine grants-in-aid. Materials supplied for stockpiling will, it is hoped, provide a valuable source of dollars to the participating countries in the future.

The administrator is authorized to charter any Government-owned vessel to a participating country when the Maritime Commission finds that it is not needed for current requirements. He can also decide that Government-owned vessels shall be sold to participating countries or their citizens and can direct the Maritime Commission to effect a sale at a price and on other terms established by law.

Individual Agreements.

The Secretary of State, after consultation with the administrator will conclude agreements with individual countries or organisations representing all or some of the participating countries providing for the performance of various undertakings. Countries must agree to promote industrial and agricultural production, take measures to stabilize their currencies and maintain a proper rate of exchange, co-operate with other participating countries, and make efficient use of their resources within the framework of the joint programme. They must also facilitate the sale of raw materials for stockpiling purposes to the United States.

They must agree to place in special accounts sums of their own currency in amounts and on terms agreed with the United States when commodities or

services are supplied as grants. Funds on this account will be disposed of in accordance with the provisions of the agreement between the United States and each country. It is suggested that they may be used for the reduction of the currency in circulation, the retirement of the national debt, local currency costs of the development of supplies of raw materials, local currency cost of projects financed by the International Bank, and local currency costs of the administration of the European recovery programme. The peculiar conditions of each country will determine the exact use of these funds.

All agreements made under this Act will be registered with the United Nations and copies of all reports to Congress on the operations of the programme will be sent to the Secretary-General of the United Nations. The President is empowered to request the co-operation of the United Nations, to use their services and facilities and to pay for such services. The President said that American support of European recovery was in full accord with this country's support of the United Nations. But, he said, it was not feasible to carry out the recovery programme exclusively through the United Nations, as five of the participating countries were not yet members of the United Nations and many European members were not participating. The terms of the Bill allow, however, that any European country not yet participating can do so by adhering to the joint programme.

Interim Aid.

Finally, the Bill authorizes the Reconstruction Finance Corporation to advance \$500 millions immediately the Act is passed to allow the programme to get under way before an appropriation is made. The President emphasized the need of making the programme effective by 1st April, and said that "if confidence and optimism are re-established soon, the spark they provide can kindle united efforts to a degree which would substantially accelerate the progress of European recovery."

Allocations Under the Marshall Plan.

In a report issued on 7th January, 1948, the State Department gave detailed proposals of aid to Europe under the Marshall Plan.

Allocations to Britain over the four-year period would include 1,305,000 tons of grain, \$493,000,000 worth of tobacco, 24,000,000 tons of oil products \$75,000,000 worth of mining machinery, \$141,000,000 worth of electrical equipment, \$34,000,000 worth of steel-making equipment, 100,000 tons of dried eggs, 2,000,000 tons of iron and steel, and \$245,000,000 worth of timber.

Proposed allocations of grain, coal, steel, machinery and petroleum to other European countries over the four-year period are as follows:—

France.—Grain, 1,175,000 tons; coal, 27,520,000 tons; steel, 999,000 tons; machinery, \$325,900,000 worth; petroleum, 22,636,000 tons.

COMMERCIAL MARKET REPORTS

BRISK HONGKONG EXPORTS

During the last few weeks shipments of locally manufactured goods and native produce for European countries, the U.S., India, Persian Gulf countries, etc., have continued brisk. Hongkong's prospering factories find good markets overseas although the profit margin, by and large, is now much reduced when compared with a year or even six months ago. There is good demand for a large number of native produce (such as vegetable and essential oils, minerals and ores, etc.) which often cannot be satisfied.

Hongkong exporters are making more intensive inquiry in Near Eastern markets where consumers' goods find ready buyers. The opportunities for local business men who can quote competitive prices to importers in Iran, Iraq, Arabia, Syria, Palestine and other countries in that region are most promising. The North and East African markets have as yet been barely scratched although a number of local firms, European and Chinese, with the proper spirit of commercial enterprise, have taken up—partly with very good financial success—the exploration of such potential big buying countries as Kenya, Tanganyika, the two Rhodesias, Abyssinia, the Anglo-Egyptian Sudan, Mosambique, etc.

Much too little interest is still evinced locally into the potentialities of Latin American markets. Many locally manufactured goods can be profitably sold to Central America, the West Indies, and the very prosperous South American countries. Since Latin America, on the whole, belongs to the hard currency area Hongkong exports

would bring such exchange which commands a premium over the official rates.

Leading export articles which were shipped abroad during the last few weeks included the following commodities:—

To the United Kingdom:—Preserved ginger; mats; chinaware; goose quilts; rubber canvas shoes; miscellaneous cotton manufactures (all made in Hongkong)—Produce shipments were mostly:—aniseed oil, cassia oil, wood oil, seagrass, duck feathers, galangal roots, rattan core, agar agar, buffalo hides, capes (very large shipments).

To the Netherlands:—Agar agar, tea, board paper. To Belgium:—Agar agar, camphor powder, straw mats, cassia. To France:—Aniseed oil, bristles, cantharides, agar agar, cassia lignea, hides, camphor tablets. To Italy:—Cocoanut oil, tea, agar agar, gallnuts, teased oil, hides, flashlight bulbs (Hongkong made).

To the United States:—Tin, Antimony regulus, Wolfram ores; Cassia lignea, Feathers, Bristles, Star Aniseed, Waste silk, Tobacco leaf, Dried Vegetables, Bamboo splits, Rattan core and peel, Water Chestnuts, Sesame seed oil, Tea, Coconut oil, Tsinglee poles, Seagrass, Human hair, Skins of deer and cows, cattle strips;—Pepper, Shellac, Tonkin canes.—Most of the following manufactured goods which were shipped recently to the U.S. were made in Hongkong:—Chinaware and earthenware; hair nets; sewing needles; camphor wood chests; bamboo ware, blinds, shades; hand fans; rattan ware, furniture; buttons; metalware; straw braid and straw matting; cloth; linen and cotton embroideries, linen drawn works, silk piece goods; firecrackers; wooden carvings and figures.

To Central American countries:—Rubber canvas shoes, cotton piece goods, wines, tea, rattan peel and core, earthenware and ceramics, crude camphor.

To India:—Rattan core, wood oil, tea, cassia lignea, saltpetre;—sewing and wire needles, hardware and metal goods; torch bulbs, lanterns; umbrella parts; electric switches; crockery and earthenware; cotton and silk piece goods.

To Burma:—lantern, felt hats, torchlights, earthenware and ceramics.

To Ceylon:—flashlights, lantern, batteries, torch cases and bulbs; metal belts and metal ware; green beans; cotton towels, sarongs, hosiery; enamel ware; vacuum flasks; felt hats and caps.

To Persia and to Iraq:—miscellaneous cotton piece goods, hosiery (of local and Shanghai origin); crockery and earthenware; vacuum flasks, cylinders; camphor wood chests; soap; pencils; torch lights and bulbs; cassia lignea.

To Arabia:—Silk and rayon piece goods, various cotton goods; torch lights and bulbs; lantern; needles; earthenware.

To East Africa:—Cotton manufactured goods; enamelware, crockery, earthenware; electric bulbs and torches; camphor wood trunks and chests; straw mats.

To Egypt:—Rattan peel; cassia; rosin; tobacco leaf; electric torches and lantern; earthenware and enamelware; pencils.

To Palestine:—Agar agar, tea.

* * *

AMERICAN LUXURY AND FANCY GOODS IN HONGKONG

Hongkong has ranged among the leading importers of U.S. made jewelry findings (such as gold and other metal vanities, lighters etc.), and writing instruments (crayons, fountain pens etc.). While it is plain to see that local stores are crammed full with an unending variety of U.S. made jewelry, fountain pens, novelties, plastic luxury goods etc., the very large amount of such imports—as listed by U.S. Bureau of the Census—has been shipped here only in transit, most of these fancy goods eventually reaching China.

Since luxury items are prohibited imports in China it is obvious that all these U.S. made fancy goods and jewelry have been shipped into China without Chinese Customs recording. The returns of the Chinese Customs also do not show any imports of such U.S. listed items as: gold and platinum jewelry, other men's and women's jewelry, compacts, cigarette cases and lighters, vanities, and miscellaneous jewelry findings. However, American export statistics show that Hongkong was rather prominent a buyer. Also considerable quantities of mechanical pencils and fountain pens (in plastic and other materials) were exported from the U.S. to Hongkong, most of which could not have been used up locally.

Import returns of Hongkong do not bear out the American export figures for jewelry findings and fountain pens. It appears that large lots of such luxury goods were only declared in the U.S. for Hongkong but actually unloaded in a China port (with or without official connivance or profit sharing). A large proportion of this trade has been carried out by overseas Chinese in the U.S. who, instead of sending US\$ drafts to their relatives and friends in China (via Hongkong), are dispatching parcels (often by air transport) containing high-priced goods for disposal in China. Proceeds of such fancy goods (including cosmetics) usually bring better returns for the recipients than US\$ drafts in the unofficial exchange market.

Italy.—Grain, 5,010,000 tons; coal, 12,937,000 tons; steel, 698,000 tons; machinery, \$16,800,000 worth; petroleum, 11,107,000 tons.

Belgium.—Grain, 1,411,000 tons; coal, 2,685,000 tons; steel, 1,121,000 tons; machinery, \$41,500,000 worth; petroleum, 4,754,000 tons.

Sweden.—Grain, 100,000 tons; coal, nil; steel, 873,000 tons; machinery, \$44,200,000 worth; petroleum, 10,206,000 tons.

Austria.—Grain, 1,810,000 tons; machinery \$49,800,000 worth; coal, steel and petroleum, nil.

Denmark.—Grain, 236,000 tons; coal, 1,208,000 tons; steel, 530,000 tons; machinery, \$22,600,000 worth; petroleum, 4,343,000 tons.

Switzerland.—Grain, 435,000 tons; coal, 447,000 tons; steel, 701,000 tons; machinery, \$9,000,000 worth; petroleum, 1,635,000 tons.

Norway.—Grain, 305,000 tons; steel, 868,000 tons; petroleum, 2,521,000 tons; coal and machinery, nil.

Ireland.—Coal, 1,812,000 tons; machinery, \$6,900,000 worth; petroleum, 1,668,000 tons; grain and steel, nil.

SAMUEL MONTAGU & CO.

Another important source of imports of U.S. made jewelry, fountain pens, cosmetic articles etc. was the personal delivery; many overseas Chinese upon returning to China carried with them much luggage which contained actually commercial imports. In many cases they were recorded here upon entry but in just as many cases they were classified as personal belongings (no particular search being conducted here as to passengers' luggage). Thousands of overseas Chinese returnees or just visitors to their native places thus were importers in disguise.

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DILEMMA OF CHINESE TRADERS

PROPOSALS IN HONGKONG—REGISTRATIONS IN CANTON

After three weeks' extensive studies by the 17-men special committee appointed on Jan. 16, of proposals, criticisms and opinions collected from various trades here, the Hongkong Chinese Chamber of Commerce on Feb. 7 completed a five-point petition asking for a general revision of the existing unrealistic trade controls in China.

Drafted by its secretary, Mr. H. Y. Tso, the petition will be tabled for final discussion, after the Chinese New Year holidays, on Feb. 16 at a general meeting of the Chamber, after which it will be forwarded to the Executive Yuan in Nanking, the Kwangtung Provincial Government and the South China Regional Committee of the Export-Import Board.

The five points of the drafted petition are:—

(1) *That the import quota for South China be increased from the present 9 percent to 30 percent of the All-China import quotas.* According to the Chinese Maritime Customs returns for 1945-6, total imports into Kwangtung Province alone represented 19 percent of the all-China imports. Since the South China area as mapped out by the Export-Import Board in Canton includes the four provinces of Kwangtung, Kwangsi, Kweichow and Fukien and since Canton is also the reshipping centre of imported goods for the provinces of Szechuen, Yunnan, Hunan and Hupeh, it is necessary that the import quota for South China be increased to 30 percent.

(2) *That the temporary import regulations as existed before July 1, 1947, (before the inauguration of the South China branch of Export-Import Board) be reconstituted immediately until such time as the South China area's import quota be increased to the requested 30 percent of the all-China import quotas.* The temporary import regulations which were abolished on July 1, 1947, had permitted all registered importers to import goods ranging from HK\$4,000 to HK\$12,000 each per week according to the classification of goods.

(3) *That 50 percent of inward remittances into South China be allowed to be used for importing essential materials.*

(4) *That 30 percent of the foreign exchange derived from export bills be permitted to be used for importing industrial raw materials and other essentials.*

(5) *That commercial firms in South China which have no direct import connections abroad but which have been importing goods through their branches or associated agents in Hongkong be included in the list of qualified importers and be given regular import quotas.*

In this connection it is important to bear in mind that business activities of South China commercial firms are very different from those of Shanghai merchants. Being the country's shipping centre, Shanghai merchants have all the opportunities of importing goods themselves directly from abroad; whereas South China merchants have to depend for their imports on their branches or associated agents in Hongkong.

The petition emphasises that these 5 demands are the minimum requirements and that the Chinese government organisations who control all trade should give fullest consideration to secure the continued existence of merchant firms in Hongkong; to enable the adequate supply of raw materials for South China's industrial establishments; to procure daily essentials for the people in general; and assist in the official endeavour to increase overseas remittances into South China through normal channels.

Registration of Chinese & Foreign Importers in Canton.

Meanwhile, the results of the registration of the South China commercial firms and factories as importers were announced in Canton on Feb. 7 by the South China Regional Committee of the Export-Import Board. The registration was undertaken by the Regional Committee following its reorganisation on Oct. 27, 1947, (from the original body known as the South China Import-Export Control Board) to enable importers and factories to import raw materials by allocating foreign exchange quotas. A total of 427 importers and 509 factories have been officially accepted and given registration certificates as importers entitled to import quotas. Among the importers who were granted certificates are several foreign firms, including Messrs. Butterfield & Swire, John Manners & Co., Deacon & Co., Jardine Matheson & Co., Connell Bros. & Co., and the East Asiatic Co.

* * * *

LOCAL PRODUCE MARKET PRICES

Before the Chinese holidays there was little change in native produce market prices last week and transactions were relatively few. Wolfram ore 65% sold around \$350, Yunnan tin \$610/630 picul. Cassia oil at \$1,280. Vegetable oils (per picul): tung \$140, sesame 250, peanut 185, rapeseed 127, coconut 143.

SMUGGLING IN CHINA

The incompetence of Chinese Government organs to check smuggling has been many times officially acknowledged in Nanking where the main reasons for the continued large volume of unrecorded imports and exports are attributed to the enormous extent of graft and corruption among the military and the civil service. Only by foreign governments' assistance can the amount of unrecorded trading be reduced.

The Hongkong Government has gone farthest in the endeavour to assist the Nanking Government. Far reaching measures, entailing the temporary sacrifice of several attributes of sovereignty, were instituted as from the beginning of this year, viz. the permission for Chinese Customs officials to extend their activities to Hongkong, and the enforcement of the surrender, by Chinese exporters in China, of their exchange proceeds of 8 specified commodities to the Central Bank of China (cf. our issues of Jan. 14, page 26, and Jan. 21, page 50).

In a recent review of the position of smuggling in China the London Times stated the following:—

Condemnation of Hongkong for its alleged responsibility for wholesale smuggling into China has now become almost an all-the-year-round sport in certain Chinese official and political circles. Allusions of this smuggling have been frequent from the earliest days of the colony's existence.

Smuggling on a large scale can only occur where the preventive service of the country affected is incompetent, or where it is operated in connivance with official services such as the Customs, the Army, the Navy, or the Air Force.

The temptation to the smuggler and his accomplices is enhanced when excessive import or currency restrictions offer prospects of enormous profits.

That is the situation in China today. The Chinese Government has banned the import of numerous classes of so-called luxury goods and imposed almost prohibitive duties and exchange restrictions upon all other imports.

Enormous profits can therefore be made by individuals or combines who can smuggle motor-cars, alcoholic beverages, drugs, cosmetics, and piece-goods into the country.

No reliable estimate of the volume of smuggling into China can be formulated, but there is much evidence to indicate that bulk smuggling takes place chiefly through large ports, which are open to foreign trade—Canton, Amoy, Swatow, Foochow, Shanghai, and Tientsin. That implies that it is done with official connivance.

The Hongkong Imports and Exports Department employs about a third of its staff in searching outgoing vessels for unmanifested cargo. When discovered it is seized, and the owners are brought into court. Over 500 such cases were before the courts during

1947, and upwards of \$1,500,000 worth of unmanifested cargo was confiscated.

After a large seizure of this kind a few weeks ago, including several scores of bicycles, the local representative of the Chinese Government protested that the cargo seized should be regarded as "personal effects."

It is a mistake to assume that most of the smuggling into China originates from Hongkong. Large quantities of smuggled goods enter from the Philippines, Formosa, and even territories much farther afield.

The extent of smuggling over the land frontier between the Hongkong Leased Territories and China is probably exaggerated, though there again the responsibility rests with the Chinese preventive service.

Even the most efficient Customs service cannot claim to prevent all smuggling. The long Chinese coastline, the corruption and inefficiency that prevail in official circles (including the armed forces), and the enormous profits that can be realized on the black market combine to put a premium on smuggling.

The Hongkong Government has co-operated in attempting to reduce this abuse in ways which few sovereign Powers would even consider.

Seizure of unmanifested cargoes is mainly in the interests of the steamship owners, who are defrauded of freight and exposed to the risk of heavy fines. But at China's request the Hongkong Government banned the import of Chinese yarn and textiles, with serious effects upon the colony's export trade and weaving industry.

After the visit to Hongkong of the British Parliamentary Mission to China, on the completion of its tour, a further effort to assist in the prevention of smuggling was made by the Hongkong Government, which ordained that all shipowners must submit to the Harbour Department at the time of clearance a manifest of cargoes loaded for China in the colony.

One copy is stamped and returned to the owner, the other is forwarded to the Imports and Exports Department for filing. This procedure applies only to cargoes actually loaded in Hongkong for China ports.

This smuggling is a two-way process. Not only are imports of a number of articles prohibited; the Chinese authorities, through various official agencies, attempt to corner a number of native commodities, demand extortionate prices, and monopolize all exchange derived from export.

They cannot seriously expect Hongkong, or the Philippines, or any other foreign territory, to prevent the movement of export cargoes which are smuggled out of the country in defiance of these strangling monopolies.

Purchases by Central Trust of China in Hongkong on Behalf of Chinese Importers

The Hongkong office of China's Central Trust, which was formally established on December 15, 1947 (see our issue of Dec. 17, page 686) has been gradually expanding its business activities which include a number of monopolies. The latest move envisaged by this state-operated organisation is to control foreign raw material purchases allocated for factories in China. Detailed measures for this new type of service will become effective upon official approval from the head office at Shanghai. Under the purchasing scheme, all factories in China which possess import quotas may have their purchases of raw materials in Hongkong paid for in advance by Central Trust of China. The local branch of Central Trust will upon application of such factories, pay the cost of raw materials, warehousing, insurance, transportation, etc.

Procedure will be as follows:—

(1) All factories and firms in China, possessing import quotas granted by the Export-Import Board, are entitled to apply to the Central Trust for purchases of such raw materials in Hongkong, with expenses temporarily paid for by the Trust.

(2) Those factories and firms desiring this service may apply to the Shanghai office or the Hongkong branch of Central Trust. Quotations may be asked from these offices. In application forms of their import licenses, they may fill in Central Trust as the sender and receiver of the goods.

(3) Due to the time limit of the import licences, the Hongkong office will purchase on behalf of the factories and firms only raw materials obtainable in Hongkong. For raw materials from abroad, separate measures will be devised.

(4) The Trust will undertake the purchases on condition that factories will present certificates of quota allotments, as well as a 30-percent deposit. No deposit is necessary in case import licences are handed to the Trust for the handling of import procedure. However, a guarantor approved by the Trust is necessary.

(5) The Hongkong office will advance cost of the goods, warehousing charges, insurance fees, transportation and coolie expenses, and ship the goods to the ports of destination. Goods arrived will be kept by the respective offices of the Trust, which will then notify the factories for delivery.

(6) The purchase of foreign exchange will be made after the arrival of the goods. All expenses, plus interest, will be refunded to the Trust after the foreign exchange is obtained.

(7) Factories must arrange for foreign exchange purchases and the delivery of goods within 14 days of the notification from Central Trust. After this period, Central Trust will purchase the necessary foreign exchange and be authorised to dispose of the goods according to its own decision, unless previous arrangements have been made.

* * * *

No More Importers' Registrations in Shanghai.

The Export-Import Board in Shanghai has issued the following notification:—

"Effective immediately, registration of importers dealing in commodities under Schedule II at this Board is closed."

The Council For the Promotion Of International Trade which includes members representing over a dozen nationalities and who are connected with the leading local Import and Export companies, have protested, stating that this regulation will put a virtual stop to any expansion which existing firms may contemplate. Furthermore, the Board's regulation will have a depressing effect on foreign manufacturers abroad who contemplate extending their activities into the China market or who may desire to invest capital in various Chinese industries.

All the present registered importers will now be turned into a privileged class.

* * * *

Chinese Trade Controls.

In reply to merchants' repeated criticisms of the import-export control system, Mr. Wang Yuen-ping, a member of the National Economic Council under which the All-China Export-Import Board functions, declared last week in Canton that it was absolutely necessary to continue with trade controls as the country was in dire need of foreign exchange.

He indicated however, that import quotas may be increased after China obtains additional American financial aid through negotiations now underway between the United States Government and Mr. Tsuyee Pei, former Governor of Central Bank of China, who is now in America on a special mission. Mr. Wang agreed with the merchants' views that their request for increase in South China's import quotas was very well founded.

Mr. Wang, who is one of the several National Economic Council members advocating strongly a reform of China's currency, also stresses that a currency reform is more necessary for South China where much of financial and commercial transactions is done in Hongkong dollars. In fact, HK\$ has become a sort of "legal tender" on the unofficial exchange and commodity markets

TRADE IN MANGANESE ORE

Production of manganese ore in China remains at a low level although some efforts, private and official, have been made since the end of war to promote exports of this ore. China's reserves and production of manganese ore were described in our issue of last November 26, page 615 (in Mr. Rabbit's "Survey of China's Mineral Resources").

Recently some imports of manganese ore, claimed to be of 45 to 50%, as well as Manganese Dioxide, claimed to be of 80-90%, have been effected by mine owners and traders who desire to establish a market abroad. Several mines in South China, notably Kwangsi and Kwangtung, have resumed operation and their local agents have approached exporters here for the purpose of obtaining foreign orders.

Uses of Manganese

Pure manganese is a hard, brittle, reddish grey or greyish white, metallic element, which has a specific gravity of 8. It is found in very many parts of the world, and frequently occurs associated with ores of iron, silver, or zinc, in which case the ores are said to be manganiferous. The greatest supplies of manganese come from Sweden, Russia (particularly the Caucasus), Brazil, and the United States.

Pyrolusite, the black oxide, which forms the most important ore of manganese, occurs structureless, fibrous, or crystalline, and contains up to 63.2 per cent. of manganese. It is of varying degrees of hardness, and has a silky or sub-metallic lustre, and a black streak. When warmed with hydrochloric acid, pyrolusite gives off chlorine—a yellowish green gas with a powerful, suffocating odour.

Psilomelane, an oxide of varying composition, is another important source of manganese. It occurs massive, somewhat resembling pyrolusite in general appearance, and containing from 45 to 60 per cent. of manganese (with water).

Manganese is used chiefly in the production of ferro-manganese and pig-iron alloys much used in making steel; it is also used in making manganese bronze and other alloys, and is frequently alloyed with copper, tin, aluminium, zinc, lead, magnesium, or silicon.

Oxide of Manganese is used in the reduction of silver and copper, in manufacturing chlorine, bleaching powder, bromine, and disinfectants also as a colouring agent in dyeing and printing; for colouring enamels; in making glass (to destroy the green tint); in glazing pottery, bricks, etc.; and in making paints. It is also used in making Leclanche batteries and dry cells.

Other compounds, such as permanganate of potash and "Condy's Fluid" are used in medicine.

USES OF SOYA BEANS

Soya beans, or "soy beans," are the seeds of the Chinese oil bean (*Soja hispida*, *Glycine hispida*, *Dolichos soja*), an annual leguminous plant which grows from 2 to 3 feet high and which is cultivated in enormous quantities in Central Manchuria, a district into which it was probably introduced from Central China, where the plant is still grown to a large extent. It is estimated that about 1,600,000 tons were under Japanese management annually in Manchuria. The plant is very resistant of drought; it can also endure slight frost and can withstand moisture. The beans are small and are contained in pods about 2 inches in length; they are harvested before they are quite ripe, the yield per acre being 1,100 to 1,600 pounds.

Several varieties are grown in China, and commonly classified by the Chinese according to form, colour, size, use and other characteristics. The best known of these varieties are:—

(1) Yellow beans, subdivided into "white eye-brow bean," so called from the whiteness of the prominent hilum; or "round golden bean" (2) Black beans, subdivided into large, small and flat black bean. (3) Green beans, subdivided into two varieties, one of which has a green epidermis and green interior, the other a green epidermis and yellow interior. These subspecies, yielding very small beans, are known as: small white bean; small red bean; and small green bean.

The "lablab bean" (*Dolichos lablab*) is also grown in various parts of China.

Soya beans contain from 30 to 40 per cent. of protein and yield from 12 to 24 per cent. of a fatty oil, according to variety. They are valued chiefly as a source of bean oil, but are also extensively used as food, either whole or ground to flour, in making beancurd, bean milk, bean sauce, or "soy", and a salted relish which is used both as food and as medicine. The black beans, which are not much used as food because they are supposed to make the body too heavy, are used in medicine, to impart strength and vigour, as a carminative, and also as an antidote for vegetable poisons, such as aconite, croton oil, etc. The bulls of green beans are applied to smallpox ulcers and other sores; the bruised leaves of the plant are used in treating snakebite; the flowers are used in treating diseases of the eyes. Young bean sprouts are used as a vegetable food.

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USES OF BAMBOO

The bamboo consists of the hollow, silicious, coated stems of a gigantic grass, of which there are numberless species. It flourishes throughout the tropics of both hemispheres and grows best in damp places, sometimes attaining a height of 90 feet. The largest bamboos produced in China are grown in the provinces of Hupeh, Szechwan, and Chekiang.

In China the bamboo is used for a great many purposes—for, making hats, mats, baskets, boat-hooks, masts, carrying-poles, pipes, furniture, fencing, buildings, bridges, aqueducts, musical instruments, and for countless other purposes. Bamboo pulp is much used by the Chinese for paper-making. Bamboo sprouts or shoots constitute an important article of food, the young tender pieces being of much higher value than the large coarse ones. The "coir bamboo," a product which is almost solid stemmed, is much in demand for making fan handles, bracelets, etc. The shoots, leaves, rhizomes, and sap of the bamboo are used by the Chinese as medicine in the treatment of a great many diseases.

"Tabasheer," or "bamboo manna," a silicious, crystalline concretion found in the joints of large bamboos, is also used in China as medicine. This product is met with in hard, broken, angular pieces, usually opaque, as smooth as porcelain, of a whitish or bluish, vitreous colour, easily broken, and usually scented with some perfume. It absorbs oil, and thereby becomes transparent. When the oil has been again driven away by heat, the internal structure of the concretion becomes apparent, showing it to be most beautifully veined. Tabasheer has the lowest refractive index of all known substances. The natives of India consider tabasheer to be cooling, tonic, aphrodisiac, pectoral, and stimulant; they prescribe it in the treatment of paralysis, flatulence, poisoning, fever, jaundic, pulmonary affections, etc. The tabasheer sold in China is usually adulterated.

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USES OF SILVER

Pure silver is a brilliant white metal, extremely malleable and ductile, softer than copper, but harder, than gold; it has a tensile strength of about 18.2 tons to the square inch, and a specific gravity of about 10.5, which may be increased by hammering and rolling. Standard silver has a specific gravity of 10.312, and weighs 643.72 pounds per cubic foot and 0.371 pound per cubic inch, pure silver weighing about 653.8 pounds per cubic foot and 0.377 pound per cubic inch. Silver readily tarnishes and becomes black on exposure to air containing sulphurous gases. It does not oxidise when heated in air, but when melted absorbs oxygen, emitting it again on solidifying. Silver is a remarkably good conductor of heat and of electricity and takes a high polish. On account of its softness, it is generally used only after having been alloyed with some other metal, usually copper.

In England there are two standards for silver—"sterling silver" and "new sterling silver." Sterling silver is the old standard, and contains 18 parts of copper to every 222 parts of silver. It is marked in England with a "lion passant"; in Edinburgh, with a "thistle"; in Glasgow, with a "lion rampant"; and in Dublin, with a "harp crowned." New sterling silver, also called "new standard silver" or "britannia silver,"

contains 10 parts of copper to every 230 parts of silver. It is marked in England with the figure of "Britannia."

Silver is used chiefly for coinage purposes and for making ornamental articles for household or personal use; also in making delicate electrical instruments and machines, (its use in the Atomic Bomb Project is well known) and in making mirrors, one side of which is often coated with a silver solution instead of mercury. Silver is also used in making alloys. Alloys of silver and copper which contain more than 50 per cent. of silver are white; when less 50 per cent. of silver is present the alloy is of a reddish tint, according to the proportion of copper present. Silver solder contains silver and copper, sometimes with the addition of zinc, bronze, and arsenic.

Articles are plated with silver by immersing them in a solution of cyanide of silver and potassium, through which an electric current is passed.

Silver can be tested, in the same manner as gold, by means of nitric acid, which turns base metals green, but which leaves silver of a whitish or greyish colour. Silver is often tested for quality by means of the touchstone.

The salts of silver are of value in medicine and in photography. Nitrate of silver is used as a caustic and in the treatment of gastritis and diarrhoea. It is sold in the form of colourless crystals.

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RUBBER TRADE OF MALAYA

Malayan Union estates of 100 acres or more produced 32,070 long tons of rubber during September 1947, and smallholders produced an estimated 21,412 tons, making a total of 53,482 tons for the month. For the first 9 months of 1947, Malayan Union production totalled 467,165 long tons, as compared with 442,224 tons for the corresponding period of 1941.

Crude-rubber imports into Singapore and the Malayan Union amounted to 23,965 tons in September, the best showing since May. The greater portion, 17,647 tons, came from the Netherlands Indies, and 3,221 tons came from British Borneo, 2,743 tons from Siam, 230 tons from French Indochina, and 124 tons from Burma. Total imports for the first 9 months of 1947 were 236,654 tons, a record figure.

Gross exports of rubber from Singapore and the Malayan Union amounted to 71,690 tons in September, including 2,899 tons of latex. Of this total, 31,834 tons were shipped to the United States, 13,813 tons to the United Kingdom, and 4,028 tons to the U.S.S.R. Shipments in excess of 1,000 tons each were made to Australia, Belgium, Canada, France, Germany, Hong Kong, Italy, and Japan. For the first 9 months of 1947, gross exports of rubber totalled 678,330 long tons, well

in excess of the 633,729 tons shipped in the corresponding period of 1941. Exports during the period January-September 1947 are shown in the accompanying table.

Stocks on September 30, 1947, totalled 164,857 long tons—an increase of 9,655 tons over the preceding month—distributed as follows: Singapore dealers, 59,577; Singapore port, 9,041; Malayan Union dealers, 59,691; Malayan Union port, 13,568; Malayan Union estates (100 acres or over), 22,980.

Exports of Natural Rubber From Singapore and the Malayan Union, January-September, 1947

	Long tons
United States	313,175
United Kingdom	121,970
Belgium	13,421
Czechoslovakia	2,335
Denmark	2,419
Finland	2,445
France	20,015
Germany	8,653
Italy	17,134
Netherlands	6,492
Norway	2,820
Spain	5,452
Sweden	8,259
U.S.S.R.	15,979
Other Europe	2,449
Canada	32,582
Cuba	1,019
Mexico	4,201
Argentina	26,716
Chile	1,309
Other South America	2,573
Australia	18,585
New Zealand	1,603
Union of South Africa	9,374
China	3,568
Hong Kong	19,999
Japan	10,159
All other	3,124
Total	678,330

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MALAYAN SOAP EXPORTS

The amount of soap manufactured in the colony of Singapore was 269,349 hundredweight during the first 9 months of 1947, and in the Malayan Union, 166,447 hundredweight. The quantity sold totalled 151,663 hundredweight in Singapore and 143,065 in the Malayan Union. At the end of September 1947, the combined stocks of soap were 22,760 hundredweight.

Malayan exports of washing soap in September 1947 totalled 16,738 hundredweight. The largest amounts went to Hongkong, Cyprus, and Sumatra, lesser quantities being shipped to nearby countries. Exports of toilet soap amounted to 13,676 hundredweight, which were sent to North Borneo, French Indochina, Sarawak, and Burma. Exports of other types of soap amounted to 729 hundredweight and were shipped for the most part to nearby countries.

PRODUCTION & TRADE IN THE NETHERLANDS EAST INDIES

Economic rehabilitation in the last part of 1947 in Netherlands controlled and organised Java and Sumatra was somewhat slower than had been expected. Railway services, resumed on a limited scale in August, had to be temporarily discontinued in some cases, while road traffic often proved precarious. It was unsafe in some districts to penetrate to any extent from the main roads to inspect plantations or industrial installations. Hence rehabilitation could be undertaken only on a limited number of estates.

At the end of last September, 191 of the 750 plantations in the reoccupied zones of Java had been placed under guard or returned to their former owners. It is estimated that the areas taken over constitute 21 percent of Java's present rubber acreage, 35 percent of tea, 49 percent of cinchona, and 22 percent of coffee. Twenty-three of the 60 sugar mills in the reoccupied areas were found in operating condition. Three of these mills commenced grinding in September, and are expected to produce about 9,000 metric tons of sugar this season.

Destruction of produce stocks by guerrilla action continued in the reoccupied areas, and the work of assembling stocks and forwarding them to the coast for shipment was impeded. About 140,000 metric tons of sugar have been recovered in East Java, and 20,000 tons in the sugar districts along the north

coast. Since production this year is expected to be negligible, it is considered necessary to retain a large part of these stocks for consumption in the archipelago. It is not, therefore, expected that more than 75,000 tons will be available for export. Approximately 1,800 metric tons of plantation tobacco suitable for cigar manufacture have been found stored in East Java, as well as 1,500 tons of native-grown cigarette and pipe tobacco. Kapok stocks in Central and East Java are believed to total about 2,000 tons. Because of the difficulty of registering produce stocks in the interior of Java and Sumatra, comprehensive information regarding their extent is not expected for some time.

Tobacco plantations on the East Coast of Sumatra appear to have suffered relatively little damage. Some areas had been used for production of rice and other food crops, and will need reconditioning. It is expected, however, that a fair-sized yield of wrapper leaf tobacco can be obtained by 1949.

Satisfactory Food Situation.

In most of the reoccupied areas, with the exception of Madura, the food situation was satisfactory. Prices of local foodstuffs declined, particularly in the larger Dutch-held cities which are now able to draw upon a more extensive hinterland for their supplies. Rice stocks in West Java were estimated at 85,000 tons and in East Java at 100,000

tons. Although the rice crop was in fair condition in most sections of Java, the yield is expected to be considerably smaller than before the war owing to plant pests and insufficient irrigation. In the important rice districts of West Java, rice mills representing 18 percent of the total milling capacity were found destroyed, while another 20 percent had been seriously damaged.

Industrial Improvement.

It has not been possible to make a comprehensive survey of damage to industrial plants in Java. In most cases only superficial damage had been sustained. Many of the buildings have been damaged by arson, but machinery has, as a rule, been found in a condition permitting resumption of operations within a few months, provided spare parts can be obtained.

Several of the oil fields in the Palembang district became accessible in July. During September the Talang Djimar field produced 409,500 barrels of crude oil, making it unnecessary for the refinery at Pladjoe to import crude for processing. The refinery at Soengai Gerong was reopened and is expected to be processing 20,000 barrels of crude oil daily during November. It is expected that this refinery may reach its prewar capacity of 45,000 barrels a day by the end of 1948. In September a total of 114,286 metric tons of crude oil were produced in the Indies as against 80,451 tons in August.

Coal production during September aggregated 15,000 metric tons. The mines in Borneo accounted for 12,000 tons, with the remainder from the Boekit Asem mine in Sumatra. It is expected that production at the latter mine will reach 20,000 tons in October.

Tin, Rubber, Copra.

Tin production on Banka and Billiton islands amounted to 1,515 metric tons in September. In the first 9 months of the year tin output has averaged 1,235 tons a month, as contrasted with only 817 tons during the corresponding period of 1946.

Exports of rubber by the NIRUB from West Borneo totalled 4,802 tons in September, slightly above the average of the preceding 8 months. In the Palembang district of Southern Sumatra the rubber trade was left in the hands of private firms. These firms are, for the present, being permitted to retain in the foreign currency a portion of the proceeds of their sales to Singapore. This relaxation of the foreign-exchange restrictions, together with the firm price trend, is expected to result in increased shipments from that area in October and November. Sales of Palembang rubber to Singapore are reported to have approximated 4,000 tons in September.

Copra production, amounting to only 8,500 metric tons in September, established a new low for the year. This was attributable to a combination of

PRIVILEGES FOR CHINESE IN INDOCHINA

An economic agreement has been concluded between China and Indo-China Government; among other concessions, the agreement grants to the Chinese continued rights to enjoy privileges traditionally granted them in Indochina, namely, entering and leaving the country, equal rights under the tax system, buying and owning of real property, doing business, carrying on agricultural and fishing enterprises, and engaging in river and coastal navigation.

The taxes assessed the Chinese will not be greater than those imposed on Indo-Chinese nationals; also, their access to legal procedures will be on a par with French nationals.

The French Government sets aside in the Port of Haiphong, for international transit between both countries, a special zone, including warehouses, equipment, and, if possible, necessary quais, for the free transit of goods coming from or going into China. The Customs control in this zone will be exercised by Chinese Customs authority; all other matters, such as security and public hygiene, will be the duty of the French Administration.

The agreement of October 29, 1903, with respect to the Indo-Chinese-Yunnan railway, has ended with the signing of the agreement. The Chinese Government, however, repurchases from sums advanced it by the French Government, the section of the Indo-China-Yunnan railway between Kunming and Hokeou, along with its materials and installations.

Taxes in Hanoi.

The government, since last September, imposes taxes on trades, business, and vehicles in Hanoi, the capital of Indo-China, in accordance with the importance of the trade or business as follows: Important industrial, commercial, wholesale, and banking firms, 20,000 piasters; middle industrial companies, 10,000 piasters; commercial and small industrial and free-trade companies, 3,000 piasters; retail sale shops, 2,000 piasters; and handicraft and small retail shops, 500 piasters. Taxes on vehicles are: 25 piasters for a bicycle, 50 piasters for a cart, 100 piasters for a jinrikisha, 150 piasters for a cycle-jinrikisha, 500 piasters for a motorcar, and 750 piasters for a motortruck.

low prices paid by producers, the high price of rice, and continued scarcity of inducement goods in the copra districts. To remedy this situation, the Copra Foundation increased the price for the mixed grades another 5 guilders per 100 kilograms over the price set in August. Furthermore, 10,000 tons of rice were purchased in Manila for distribution, at reduced prices, to

copra producers, while delivery of consumers' goods (particularly textiles) to the copra areas was expedited. As a result of these measures a substantial increase in production is expected in October. Copra exports in September amounted to 15,000 tons, of which 11,700 tons went to European countries and 3,300 tons to South Africa.

Foreign Trade.

The latest comprehensive figures of foreign trade of reoccupied areas published to date are those for May 1947. Commercial (as distinct from military) imports during that month were valued at 70,971,338 guilders and exports totalled 23,014,000 guilders. Sixty-five percent of the imports were for the account of the Netherlands Indies Government Import-Export Organization, the balance having been handled by private firms. Sixty-six percent of the exports, by value, were shipped to the Netherlands, 16 percent to the United States, and 9 percent to Singapore. Tin, copra, rubber, petroleum products, and spices represented the largest values exported.

Shipping.

The Dutch merchant marine serving the Netherlands Indies is operating 193 vessels with a combined gross tonnage of 1,096,000. Dry-dock and harbour equipment in Indonesia is gradually being repaired, and two additional dry-docks were purchased in September to replace units lost during the war.

The present Netherlands Indies Merchant Fleet, both international lines and inter-island shipping, consists of 193 ships with a capacity of 1,096,000 gross tons.

The Stoomvaart Maatschappij Nederland (S.M.N.) is maintaining at the present time 3 passenger vessels and 23 freighters with a gross tonnage of 240,000. The Rotterdamsche Lloyd Maatschappij has 3 passenger ships and 20 freighters whose capacity is 204,000 gross tons. The K.P.M. (Royal Dutch Packet-Navigation Co.) operates 7 passenger ships and 85 freighters with a gross tonnage of 212,000, while the Netherlands Indies Tank Service controls 37 tankers whose gross tonnage amounts to 323,000.

Exemption of Duty on Rubber.

Because of low rubber prices prevailing on the world market, and as an aid to the industry in its postwar rehabilitation, the Netherlands Indies Government decided to exempt rubber

from all export duties, except the 5 percent export duty on the native product. As a result of this action, the only charges levied on estate rubber are the NIRUB export licence fee of 0.02 guilder per kilogram of rubber; a statistical tax of one-fourth of 1 percent ad valorem; and part dues ranging from 0.80 guilder to 1.25 guilders per metric ton. Native rubber pays these charges, in addition to the 5 percent export duty. This export duty on native rubber is retained because one of the primary reasons for its adoption in 1910 still exists; namely, that native producers do not pay an income tax.

TRADE RETURNS FOR THE PERIOD JANUARY TO MARCH 1947.

The guilder is officially valued at 2.615 to the dollar (approximately 33 cents, U.S. currency).

Not included in the statistical data are the foreign trade of the Indonesian Republic, the considerable traffic of smuggled goods to Singapore, and supplies imported by the armed forces and the Red Cross. Only the foreign trade of that part of the Netherlands Indies controlled by the Dutch is recorded.

Although export trade had largely reverted to private enterprise by January, NIGIEO (Netherlands Indies Government Import and Export Organization) still imported the bulk of most foreign merchandise, with the exception of minerals, such as petroleum products.

Private purchases exceeded NIGIEO imports by nearly 20,000 tons, chiefly petroleum products, but failed to surpass Government imports by value. Other products purchased abroad by private importers included foodstuffs and metals, whereas NIGIEO centered its imports on foodstuffs, textiles, and petroleum products.

<i>Imports into the Netherlands Indies</i>		
	Quantity (metric tons)	Value (1,000 guilders)
Animals & plants ..	16	25
Food products ..	65,770	40,736
Animal & vegetable products ..	607	793
Minerals & mineral products ..	108,671	6,732
Chemicals, pharma- ceuticals, etc. ..	5,379	6,833
Earthenware ..	447	197
Glass & glassware ..	193	333
Wood & wood pro- ducts ..	555	412
Hides & skins ..	17	125
Textiles & yarns ..	1,442	2,306
Metals & metalware ..	10,742	6,215
Vehicles, vessels & aircraft ..	4,789	10,032
Machinery & tools ..	3,330	7,303
Others ..	435	1,981
Total ..	208,024	120,504

<i>Exports from the Netherlands Indies</i>		
	Quantity (metric tons)	Value (1,000 guilders)
Animal products ..	855	1,467
Rubber & gutta- percha ..	11,219	12,875
Drugs & spices ..	2,587	5,097
Coffee of all kinds ..	8	14
Oil-bearing fruits (copra) ..	40,619	21,475
Sugar of all kinds ..	425	126
Tobacco of all kinds ..	21	31
Tea ..	1,247	2,102
Fibers of all kinds ..	1,558	1,501
Other vegetable pro- ducts (resins, es- sential oils) ..	8,127	6,766
Petroleum, petro- leum products, mineral fuels, n.e.s. ..	90,839	2,530
Cements, ores (tin) ..	7,585	19,402
Miscellaneous goods ..	103	88
Foreign products, ex- clusive of gold and silver ..	138	326
Total ..	165,331	73,800

ECONOMIC DEVELOPMENTS IN THE PHILIPPINE REPUBLIC

The deflationary trend in Philippine economy which appeared last spring was generally maintained throughout the second half of 1947. Imported goods for consumption continued in ample supply, and price changes in most consumer lines were negligible. Except for a speculative rise in rice prices late in September—following the reexportation by the Government of imported rice—the general price trend was downward. The cost-of-living index stood at 340 in September, compared with 364 and 394 in July and January 1947 respectively, and with 478 in September 1946, based on 1941 as 100. Currency circulation, however, con-

tinued to expand, rising from 716,448,000 pesos on June 30 to 725,240,000 pesos on September 30.

Customs and internal-revenue collections in Manila, which usually constitute 75 to 80 percent of total collections, amounted to 48,000,000 pesos in the third quarter, compared with 22,000,000 pesos for the corresponding period in 1946. Commercial banking operations expanded, and two bond issues totaling 11,000,000 pesos were offered in September in the domestic market, the first to be floated in the Philippines since the war. Transportation facilities showed considerable improvement.

Foreign Trade

The trend in foreign trade was downward. A decline in imports from an average of 96,000,000 pesos per month for the first 5 months of 1947 to 60,000,000—70,000,000 pesos a month in the third quarter reflected the tapering off of the postwar rush for consumer goods. Owing largely to activities of speculators—notably in textiles and canned milk—and to incorrect estimates of demand, as in the case of rice and flour, a number of consumer items had become overstocked. By the third quarter, excessive supplies were being partially liquidated by reduced importing and by reexporting of certain commodities.

Export trade has receded considerably from the postwar high mark in April 1947 of 89,367,000 pesos, somewhat incomplete trade returns indicating export shipments valued at approximately 30,000,000 pesos a month in the third quarter.

Establishment of the Pratra.

All importing activities of the Government for commercial distribution of rice transactions, were centered by Executive Order in one organization known as the Philippine Relief and Trade Rehabilitation Administration (PRATRA). By the end of September the new organization took over the functions of the Philippine Relief and Rehabilitation Administration and the National Trading Corporation, as well as importing activities of the National Co-operative Administration. It was anticipated that PRATRA would purchase largely through the Philippine Government Purchasing Agency in New York.

Industrial Activity.

Interests in industrial development became increasingly apparent. A number of prominent prewar concerns took steps to resume or expand operations, one large Spanish tobacco company having floated a 6 percent bond issue of 6,000,000 pesos for rehabilitation of its facilities. The flotation, offered at the same time as a Rehabilitation Finance Corporation issue of 5,000,000 pesos, may serve to test domestic interest in the financing of industry.

A prewar packing company, with about 5,000 acres planted in pineapple, announced preparations to start canning in December, and one of the larger sugar mills was raising funds in the United States to reconstruct its central in Negros. Activities in the rebuilding of ship-repair facilities and reconstruction of warehouses were evident, and announcement was made early in October of the formation of the Philippine Electric Manufacturing Co. The company, financed largely with American capital but with a substantial Philippine Government investment, will make fluorescent lamps and incandescent light bulbs.

The Government-owned National Development Co. announced plans to build a new textile mill, possibly at Cebu, with spindles and loom abandoned in Manila by the Japanese. Other Government proposals included the establishment of small factories to make agricultural implements, the manufacture of newsprint from bamboo fiber, wall board from coconut husks, and plaster board from abaca fiber. In many of the Government projects the anticipated availability of reparation facilities is of prime importance, and the recent allocation to the Philippines of 3,270 units of machine tools as part of the 5 percent advance transfer of reparations of this category, lent encouragement to plans for the establishment of agricultural machinery and tool plants, machine shops, and allied industries.

Sugar, Copra, Hemp.

The 1947-48 sugar crop was estimated by the Philippine Sugar Administration at slightly under 430,000 short tons from a planted area of 73,752 hectares. (1 hectare—2.47 acres.) The domestic quota for the crop year was tentatively set at 90,000 short tons, to be increased if demand warrants. At the close of the 1946-47 milling season in September, production of the 17 centrifugal mills in operation was officially reported at 84,513 short tons. The price of centrifugal at the end of September was 55 centavos a kilogram, or about four and one-half times the average prewar price.

With the merger of the Government-owned sugar mill at Binalbagan, Negros Occidental, and the Isabela central, the Government became the largest producer of sugar in the Philippines.

With firmer prices for copra, production has recently increased, and the output for 1947—including copra equivalent of coconut products—is estimated at about 1,075,000 long tons. Exports in the first 9 months totaled 681,930 long tons, and are expected to exceed 900,000 tons for the year. Shipments of other coconut products in the first three quarters of 1947 included 11,430 long tons of coconut oil, 23,410 tons of copra cake, and 35,527 tons of desiccated coconut.

The expected decline in abaca production—with the exhaustion of planted areas in Mindanao—has not materialized, and fairly heavy shipments in August and September brought total exports for the 9 months to 586,412 bales of 278 pounds each.

Rice, Tobacco.

It was estimated that about 1,700,000 cavans of rice were lost through recent typhoon damage, thus reducing the first official forecast for the 1947-48 crop from 53,500,000 to 51,800,000 cavans of rough rice, (1 cavan—44 kilograms or 97 pounds of unhulled rice.) Although the crop

will fall short of potential domestic demand, it does not appear likely that there will be a considerable market for higher-priced American rice in 1948. Current stocks of imported rice are ample, and in recent months rice has been reexported by the National Rice and Corn Corporation to prevent spoilage.

The 1947 tobacco crop in the Cagayan Valley is estimated at 107,000 quintals, and in La Union, Pangasinan, and Ilocos Provinces at 50,000 quintals. (1 quintal—46 kilograms, or 101.4 pounds.) The Cagayan crop was of very good quality, and prices of all grades of tobacco were generally high. Assuming normal growing conditions, the 1948 Cagayan crop is expected to be 50 percent greater than the output in 1947, and the yield in other Luzon areas possibly 70 percent higher.

Production of cigars for the domestic market has been hampered by the sale of large quantities of low-priced Army surplus cigars, and with continued high production costs, the export market for cigars remains negligible. Exports of leaf tobacco, scrap, and certain other types, for the first 9 months of 1947 were unofficially reported as mounting to 6,227 tons, going mainly to the United States and India. Demand from Spain could not be satisfied because of that country's inability to provide dollar exchange.

Lumber.

Arrivals of lumber in Manila continue to average better than 10,000,000 board feet a month and yards were reported to have stocks of 25,000,000 board feet at the end of September. Although limited exports of logs and flitches were permitted beginning July 15, 1947, only samples were shipped until late in August. By the end of September about 304,000 board feet of flitches and 4,129,000 board feet of logs had been exported. The Government is making a serious effort to assure the high quality of exports, and inspection and grading complicate procedure after a license to export is obtained. The Government-ordered lumber mill has arrived and is being installed by the National Development Co.

Progress in Mining.

Gold production continues to increase steadily, with the two most active mines in Luzon nearing their milling capacities of 400 to 450 tons of ore a day. Production of the two mines through September was valued—at the legal rate of 70 pesos per ounce—at 2,352,000 pesos. A third mine, in Mindanao, started milling in September, and there also has been some production from two placer operations. Meanwhile, reconstruction of several of the largest gold-mining properties is proceeding, and total output of gold in 1948 is expected to reach 30,000,000 pesos in value. Although present producers appear to be finding a domestic market for much of their bullion, sufficient capital has not been forthcoming to rehabilitate other now-inactive mines.

Chrome ore of refractory grade is being produced in Zambales Province at the rate of 20,000 tons a month, and with the aid of a loan from the Rehabilitation Finance Corp. a second mine in this area is expected to start production of metallurgical ore by the second quarter of 1948. Substantial shipments of chromite ore for metallurgical purposes also are expected in 1948 from northern Mindanao.

Returns from the export of copper concentrates abandoned by the Japanese are financing reconstruction of the copper mine in Benguet, Mountain Province, Luzon, and new production is expected to start in the spring of 1948. About 7,800 tons of concentrates have been shipped and about 1,000 more are available.

The Philippine Oil Commission recently was formed by the Government to study oil resources and make recommendations as to whether future activity should be undertaken exclusively by the Government or jointly with private concerns. In 1937 oil resources of the Philippines were opened to private interests, but later all licenses were cancelled except that of the Far East Oil Development Co., which resumed operations in Cebu after the war. Drilling recently was completed at about 10,000 feet.

Transportation and Communication.

New regulations governing the use of Government air navigation provide for the payment of landing fees, based on type and gross weight of air craft. Business conducted within Government airports, moreover, will be taxed 5 percent of the gross income, and public utility and passenger vehicles entering airports will be subject to fees, according to the type of vehicle and number of trips made. An annual income of 200,000 pesos for the promotion of Government air navigation is expected from these sources.

Capitalization of Philippine Air Lines (PAL) has been increased from 5,000,000 to 10,000,000 pesos, with about 40 percent of the new stock issue purchased by the Government, which now holds slightly more than 40 percent of total stock outstanding.

Motor-vehicle registrations totalled 60,210 on June 30, 1947, of which 21,966 were cars and 38,244 trucks. Nearly one-half the total registered vehicles were in Manila. New bus services are in operation and others are planned, including more adequate services for Mindanao. The Public Service Commission is expected to order reductions in bus rates. Passenger fares have been lowered by the Manila Railroad, which has announced plans to purchase new equipment over a period of 5 years. The company expects to acquire 30 road locomotives, 17 switch locomotives, 240 freight cars, and 12 caboose cars, as well as machine tools and other equipment.

POTENTIALITIES OF KOREA

The abnormal political conditions under which the Korean people are now compelled to live have not facilitated the recovery of Korean commerce with the world. As long as the Soviet and American occupation of the country continues no great improvement can be expected; however, some advance has been made in 1947 and more regular trade is duly anticipated for the current year. The potentialities of trade with Korea—an independent Korea—are very great; the country is rich in mineral and agricultural production. Her pre-war trade valued about an equivalent of Hongkong \$2 billion (one to 1½ billion for imports, about ¾ billion exports).

The total area of Korea exceeds 85,000 square miles. The pre-war population was over 23 million of which almost 700,000 were Japanese, some 50,000 Chinese and Manchus, and 1,000 Europeans. The present population is estimated at about 25

million. The capital, Seoul, is in the U.S. zone with a population of about one million; other leading cities are: Pyeongyang (Heijo), 290,000; Fusan 250,000; Taikyu 110,000; Jinsen (Chemulpo) 100,000. The language of the people is a mixture of Mongol-Tartar and Japanese. It is written in an alphabetic system.

Political Position.

Following the collapse of Japan in 1945, American and Russian forces entered Korea to enforce the surrender of the Japanese troops there, dividing the country for mutual military convenience into two portions separated by the 38th parallel of latitude. The Russian sector in the north covers approximately 47,980 square miles, with a (1939) population of 8,229,000; this is the industrialized portion of the country. The American sector, mainly agricultural, covers about 37,268 square miles, with a population of 14,565,000.

Payment by the United States Army to Philippine shipping companies of more than 4,000,000 pesos for 15 interisland vessels commandeered and lost during the war was approved in September. Consideration was given in the settlement to rental of the ships up to the time they were lost thus setting a precedent for other pending claims.

The contract for rebuilding Pier No. 9, Manila's South Harbour, was awarded to a Philippine contractors' syndicate, at a figure in excess of 8,000,000 pesos, about 75 percent of the original estimate. Although reconstruction and expansion of the pier ultimately will provide ample facilities for the port of Manila, the immediate effect will be to reduce facilities to a point where port congestion may again be expected. Meanwhile, work has begun on extensive street paving in the South Harbour and repair of the breakwater in North Harbour while specifications for the rehabilitation of port and harbour facilities in Cebu, Davao, and other ports are under way.

Four commercial broadcasting stations are now functioning in Manila, as well as a station operated by the Department of Foreign Affairs and a relay station run by the United States Government. As soon as equipment can be obtained and installed, a commercial station is scheduled to open in Cebu.

Although telephones have been installed at the rate of 200 a month since December 1946, service is still virtually limited to Manila, where approximately 6,000 civilian subscribers were listed at the end of September. Meanwhile, new cables and conduits are arriving and foundations for two central exchanges, to serve 10,000 subscribers each, have been laid.

The Allied Powers pledged themselves to restore Korea to complete independence after a 5-year period of Allied tutelage and trusteeship. This provoked protests from all the Korean political parties. When the two occupying powers sought in 1946 to establish an interim Korean government, the Russians insisted that only those Korean groups and parties which had supported the 'Moscow Agreement,' i.e., for trusteeship pending the elimination of Japanese and pro-Fascist forces, should be enfranchised; the Americans insisted this such wholesale disfranchisement was undemocratic. Negotiations broke down in May, 1946, and the 38th parallel now completely separates the two zones. In the north, the Russians have established the 'Korean People's Republic,' expropriated the Japanese industries and landholdings and divided some 2,000,000 acres among 700,000 landless peasants, an average of nearly 3 acres apiece. In the south, long-term credits are provided for the buying out of the larger landowners.

Agriculture & Mining.

Korea is essentially an agricultural country with a cultivated area of approximately 11 million acres. The chief crops are rice (about 27% of the cultivated area and largely exported, providing Japan with 10% of her consumption), barley, wheat, beans, grain of all kinds besides tobacco and cotton. The rice crops for 4 years were (in bushels):—1937, 132,912,872 (the largest on record); 1938, 119,728,815; 1939, 71,204,728; 1940, 106,775,869. But per capita consumption of rice has fallen from 38 bushels per year in 1915-19 to 22 in 1934-38; the necessary minimum consumption is estimated at about 55 bushels annually. In 1940, 37,549,620 bushels of barley and, in 1939, 25,977,573 bushels of millet, 19,184,462 bushels of soya beans, 14,858,612 bushels of rye, 12,358,157 bushels

of wheat and 157,752,637 lb. of cotton were produced. 170 million lb. of apples were grown in 1937. Silkworm rearing is also carried on and in 1940 there were produced 22,713,000 kilos of cocoons, compared with 20,566,000 kilos in 1939. Live-stock is raised as a by-product of agriculture. The cattle are well known for their size and quality. In 1939, there were 1,705,000 cattle, 51,000 horses, 1,400,000 pigs, 20,000 sheep. The fishing industry was intensively developed by the Japanese; value of catch in 1939, 151,000,000 yen. Whale fishing is carried on off the coast.

Gold mining is carried on; the 1939 output was 33,550 kilos. Iron and coal are abundant in Korea. The output of pig iron in 1937 was 168,000 metric tons; iron ore (1936), 350,000 tons, by metallic content; coal (1937), 2,348,000 metric tons; tungsten (1936), 36 metric tons (metallic content). Molybdenum and mica also are found in fair quantities. The total value of mineral products in 1936 (the last year for which mineral production statistics were published) was 110,429,655 yen. The Government has the monopoly of ginseng, salt and tobacco, the latter yielding 34,298,029 kilos in 1939. Pre-war value of the yen about one Hongkong dollar).

Industrial Development.

Industries have been intensively developed by the big Japanese concerns, notably cotton spinning, hydro-electric power and cotton, silk and rayon weaving, and the leading industry, the nitrogenous fertilizer works of the Chosen Chisso Company and its allied chemical factories at Konan, on the east coast. The 5 biggest power stations and the projected station on the Yalu river, to be one of the largest in the world, are all in the Soviet zone of occupation. The total number of factories in March, 1938, was 6,233, employing 201,641 operatives, and having an output valued at 959,308,000 yen. In 1942 industrial production, mainly munitions, had a gross value (estimated) of 2,700 million yen, a ninefold expansion in 10 years.

Commercial Activity.

Trade between Korea and Japan proper amount in 1939 to about 25% of Japan's total foreign and colonial trade. Rice amounted to 50% and metals and minerals to 15% of Korean exports. Imports were swollen by supplies for the Japanese-owned industries. The principal open ports are Keijo (Seoul), Jinsen (Chemulpo), Fusan, Gensan, Chinnampo, Mokpo, Kusan, Seishin, Heijo, Rashin, Yuki, Joshin and Shingishu. Shipping entered at Korean ports engaged in foreign trade amounted to 2,171,268 tons in 1939, and in the domestic trade to 11,474,445 tons. In December, 1939, there were 738 steamships, of 106,712 tons, and 1,125 sailing ships, of 45,431 tons.

THE SITUATION IN NORTH KOREA

While there is adequate commercial information available since last year on developments in South Korea, and political reports on this American Army controlled part of the country are now regularly disseminated, only little news transpired about Soviet controlled North Korea. Trade with South Korea and Hongkong has become rather active of late and interest in the development of business with North Korea has therefore been heightened. Possibilities for resumption of trading between this Colony and North Korea should be found within this year.

The following report on conditions in North Korea was compiled by a contributor (A. L. Strong) of the New Statesman & Nation and published in London on January 17, 1948.

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Contrary to common view it is possible to travel in the Soviet zone of North Korea and talk freely to Koreans without any Russians around. One needs the usual military permit to enter the zone; this difficulty surmounted, there are few others.

When the Red Army entered Korea in early August, 1945, heavy battles took place in the North, but the Japanese rule remained tranquil in the South, for the Russians stopped at the 38th parallel, while the Americans came three weeks after the surrender of Japan and took over from the officials, continuing much of the former apparatus in power. Hence all pro-Japanese Koreans, former police, Civil Servants, landlords and any persons averse to change generally fled south to the American zone.

The flight of these Right-wing elements simplified North Korean politics. The Russians did not need to appoint a single official. They merely set free some ten thousand political prisoners and let them go home and organise things. "People's Committees" sprang up by villages, counties and provinces, and coalesced into a Central People's Committee. In the South the Americans ignored and later suppressed these Committees; in the North, they became the Provisional Government. At the same time Peasants' Unions and Trade Unions were rapidly organised, and presented demands, with which the People's Committees were willing enough to comply.

The two chief groups that emerged from jail and from underground were the Communists and a religious party peculiar to Korea known as the Chendoguo. It proclaims a humanist, patriotic, democratic religion. This was the party that led the revolt of 1919, when hundreds of thousands of Koreans rushed into the streets in white robes, phoned the police that Korea was now independent—and were

shot down mercilessly. With Communists and Chendoguo energetically organising, and proclaiming tidings of liberation, no Russian pressure was needed to send North Korea Left.

Kim Il Sung became provisional President. He was a legendary figure who fought for fourteen years from the northern hills, and set up an anti-Jap. regime in many counties, even before the surrender. Surprisingly enough, the next highest posts in the Government, those of Vice-President and Secretary of the Presidium, are filled by two Protestant clergymen, a Methodist and a Presbyterian, products of American mission schools.

The provisional government put through revolutionary measures with breath-taking speed, but always in response to demands presented by Peasants' Unions or Trade Unions. Landlords' land, which was 62 percent of all farm land, was confiscated and distributed to peasants in March, 1946, in response to the demands of the Peasants' Congress, which—after a winter organising campaign—met in late February to present its demands for land to the Government. Seventy-two percent of all peasants had previously been paying rent for all or part of the land they tilled. Rents had ranged from fifty to seventy percent of the crop. They now became owners, paying a 25 percent crop-tax to the Government. They are a solid bulwark of the new regime.

Ninety percent of all industry—it had belonged to Japanese individuals or corporations—was given by the Russians "to the Korean people" in a single much-applauded gesture, and nationalised by a law passed on August 10th, 1946. A Labour Law had been passed some weeks earlier, establishing the eight-hour day—seven in injurious trades—with two weeks' vacation on pay, abolition of child labour, and a Social Insurance code. Many summer resorts were turned over to the Department of Labour and used for free vacations for workers.

The first general elections were held in November, 1946. By that time a People's Party of peasants had been formed and had merged with the Communist Party to form the "North Korea Labour Party," the largest party in North Korea. The Chendoguo remained the second strongest party, with large support among the peasants. A Democratic Party had also been formed, mildly progressive, small in size but including many influential intellectuals.

These three parties formed a Coalition ticket and put up a single list. Once formed, the voters registered merely approval or disapproval, by dropping their ballots into a white or a black box. Actual voting was secret,

behind a screen. In thirteen districts the Coalition candidate was rejected, and new elections held. Village and township elections, held in February, 1947, were competitive—with many candidates, nominated not by parties, but in peasant meetings.

The most important achievement of the new regime has been the improvement of agriculture. For the first time in decades, North Korea supplies all its own feed. North Korea today has an unpaid bill against South Korea for 1,000 million kilowatt hours of electric power supplied during the past two years, but has tried in vain to get paid in food. A two years' drive

to increase food production, following on the land reform, has increased the sown area. The fields are also much better fertilised, since North Korea owns its fertiliser works, and a Farmers' Bank lends money for fertiliser. The standard of living has risen, especially in rural districts.

Industrial production is a harder problem. The Japanese wrecked the factories thoroughly before surrender. Eighty percent of the locomotives were put out of commission; blast furnaces and coke ovens were ruined by simply letting the charges cool inside them to a solid mass. The first job of the trade unions was, therefore, to get industry going. Figures of industrial production for 1947 show tremendous gains over 1946. In many cases production has doubled.

Koreans have been migrating from the American Zone to the Russian at rate of 1,500 a day, according to the figures of the quarantine stations along the Parallel. People in the American Zone claim that the migration is the other way. This the Koreans of the North deny. Figures are complicated by the large movement of Koreans formerly living in Manchuria, who moved across North Korea to their ancestral homes in the South. It seems, however, clear but there has been migration in both directions, the migration from the North having been earlier, and of a different class.

The gap between North and South Korea is therefore increasing, not lessening, in the two years since America occupied the South and Russia the North. The 38th Parallel, at first only an artificial demarcation, has become a boundary polarising two different forms of life and government. The polarisation began with the southward flight of former officials and Right-wing elements generally two years ago. It continues with the northward flight of unemployed workers and Left-wing elements, fleeing the South Korean police. Every Korean passionately desires an all-Korean unity. But the barriers to that unity—not only the outward but the inner barriers—seem to grow with every week.

OUTSTANDING EVENTS IN 1947

Jan. 1st	Formal transfer of coal mines to State ownership in U.K.	Sept. 22nd	Report of Committee on European co-operation signed in Paris.
Jan. 2nd	Issue of cupro-nickel coins to replace silver in U.K.	Sept. 26th	Britain announced decision to relinquish Mandate over Palestine.
Feb. 10th	Electricity cuts to industrial and domestic consumers began in U.K.	Oct. 1st	Foreign travel allowance for pleasure travel outside Sterling area abolished. Basic petrol ration abolished in U.K.
Feb. 20th	British Government's intention to transfer power into "responsible Indian hands" by June, 1948 announced.	Oct. 6th	Control of Engagement Order came into force in U.K.
Mar. 3rd	Industrial power restored in U.K.	Oct. 9th	South Africa announced gold loan to Britain of £80 millions.
Mar. 4th	Australian gift of £20 millions to Britain announced.	Oct. 11th	U.S.A. supported plan for partition of Palestine.
Mar. 5th	New Zealand gift of £10 millions to Britain announced.	Oct. 22nd	French Ministry resigned.
Mar. 10th	Four-Power Moscow Conference on Germany and Austria opened; ended April 24th.	Oct. 23rd	Further food cuts and stoppage of purchase of American tobacco announced in U.K.
Apr. 15th	Budget introduced in U.K.	Oct. 25th	Highest weekly steel output in history of industry (281,500 tons) in U.K.
June 5th	Mr. Marshall outlined plan for U.S. aid to Europe.	Oct. 27th	Text of Burma Independence Bill issued.
June 30th	U.S. Budget surplus, first for 17 years, \$753,787,660.	Oct. 30th	Agreement by 23 countries on tariffs and trade signed at Geneva.
July 2nd	Egypt left the Sterling area.	Oct. 31st	U.S.A. proposed that partition of Palestine should come into existence on July 1st, 1948.
July 12th	Conference on European economic co-operation opened in Paris.	Nov. 12th	Supplementary Budget introduced in U.K.
July 15th	Sterling becomes convertible.	Nov. 13th	Britain announced withdrawal from Palestine by August, 1948. Bill to confer Dominion status on Ceylon read in Imperial Parliament.
July 19th	U.S.A. took over former Japanese mandated islands in Pacific, under U.N. trusteeship.	Nov. 25th	Conference of Foreign Ministers on Germany and Austria opened in London.
Aug. 6th	Transport Act received Royal Assent; transfer of Railways to Transport Commission, Jan. 1st, 1948.	Nov. 29th	U.N. Assembly adopted plan for partition of Palestine into Jewish and Arab states.
Aug. 15th	Dominions of India and Pakistan inaugurated.	Dec. 1st	U.S. Senate passed Interim Aid Bill.
Aug. 20th	Sterling convertibility and American loan to Britain temporarily suspended.	Dec. 5th	Balance of U.S. loan to Britain unfrozen.
Aug. 31st	United Nations special committee recommended termination of Palestine Mandate and independence of Palestine at earliest possible date.	Dec. 14th	Rationing in Russia abolished and currency reforms introduced.
Sept. 15th	Treaties of Peace with Italy, Finland, Bulgaria, Hungary and Rumania came into force. Sale of £20 millions gold by Bank of England to Federal Reserve Bank announced.	Dec. 15th	Foreign Ministers' Conference in London on Germany and Austria ended in failure.
Sept. 16th	Britain purchased \$60 millions from International Monetary Fund.	Dec. 17th	Increase in coal output (best since 1940) announced in U.K.
		Dec. 19th	U.S. Congress passed interim Foreign Aid Bill and Anti-inflation Bill.
		Dec. 27th	Anglo-Russian trade agreement signed.

